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CONTENTS

1. Editorial.....	3
2. GROWTH, STRUCTURE AND DETERMINANTS OF INDIA'S IMPORTS 1980-81 TO 2000-01 (By Dr. Mrs Neena Malhotra and Ms Meenu)	5
3. CHALLENGES TO COMMERCE EDUCATION : THE ERA OF WTO (Dr. S. David Amirtharajan)	20
4. FOREIGN EXCHANGE RESERVES OF INDIA (Mr. Sumanjeet Singh).....	26
5. INVESTMENT CLIMATE FOR FDI FLOWS: THE EXPERIENCES OF CHINA AND INDIA (Dr. U Arabi and Dr. S M Abdul Khader)	32
6. TOURISM DEVELOPMENT IN INDIA – CHALLENGES IN THE NEW MILLENNIUM (By Jayasheela, V Basil Hans and R.R. Biradar)	57

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Editorial

Dear readers,

This issue has two commentaries and three research papers.

The first research paper is by Dr. Mrs. Neena Malhotra and Ms Meenu, from Guru Nanak Dev University (GNDU), Amritsar. They explain in their Paper 'Growth, Structure And Determinants Of India's Imports 1980-81 to 2000-01' that liberalisation policy since 1990's gave a boost to the Indian economy, which led to fast growth of imports for the purpose of industrialization as well as for export promotion. The period 1980 onwards is a very crucial period for the Indian economy due to vast changes in international economic order as well as domestic policy regimes. Imports sector, along with Indian economy, has undergone significant structural changes during this period. Hence the study of India's imports, its growth, structure and determinants during pre and post liberalization period covering 1980-81 & 2000-01 assumes importance. The study analyses the growth, structure and import demand functions of total imports and some of major categories of imports for the period 1980-81 to 2000-01. The major determinants of imports which have been included in the analysis, are relative prices (RP), gross domestic product at factor cost (GDPFC) as income measure, foreign exchange reserves (FR) as measure of capacity to import and economic policy reforms.

Dr. S. David Amirtha Rajan, from The American College, Madurai, emphasises in his commentary 'Challenges To Commerce Education : The Era Of WTO' that commerce education has been a very attractive subject of study right from its beginning. The society had a thought at the time of introduction of this course that it would be a job oriented subject. Even now they have the same kind of perception. Of late, commerce education is facing challenges from a number of new innovative management courses. These developments have greatly reduced the employability of commerce graduates to the bare minimum. A meaningful commerce education will result into more employment and development of nation.

Sumanjeet Singh from, M.D.University, Rohtak (Haryana), comments in his article, 'Foreign Exchange Reserves Of India' that the surge in the foreign exchange reserves has been an enduring phenomenon since the beginning of economic reforms in 1991. In over a decade of economic reforms, the level of foreign exchange reserves has steadily increased all the years except 1995-96. The article attempts to explore the cause and effect for the surge in foreign exchange reserves.

The paper 'Investment Climate For FDI Flows: The Experiences Of China And India' has been authored by Dr.Arabi. U, Reader, from Mangalore

University, & Dr. S. M. Abdul Khadar, from K.M.M.Govt. Women's College, Kannur, Kerala. Though recently India and China have achieved rapid sustained economic growth, their rates of progress have been quite indifferent and today, China is the larger recipient of FDI followed by India among developing countries. The recent experiences also indicate that, China is more attractive than India in terms of the macroeconomic environment, market opportunities and policy orientation towards FDI. India on the other hand, scores better on the political environment, taxes and financing. Further, it is also seen that China has a better FDI policy treatment, market growth, and consumer purchasing power, rate of return, labour law and tax regime than in India. Against these backdrops the paper addresses a few issues like, the growth of FDI flow to China and India, the Key Determinants of FDI flows to China and India, challenges and policy requirements in tackling the investment climate improvement in recipients countries and finally the immediate need for evolving Strategic -Development FDI policies for sustainable growth of both the countries

The last paper 'Tourism Development In India – Challenges In The New Millennium' is by Jayasheela and V.Basil Hans from Mangalore University and R.R.Biradar from Karnataka University, Dharwad. According to them, India's tourism industry has witnessed significant upsurge paying rich dividends to both consumer and producers. India has emerged as one of the world's top 40 tourism earners in 2005. Thanks to the vibrant tourism industry there is now an almost assured channel of financial flow to the country. Being highly labour- intensive industry tourism is also a major source of employment. The paper analyses the key changes and challenges in the path of revolutionising the tourism industry in the new millennium.

We welcome our new panellist and Editorial Advisory Board member "Dr. U. Arabi" Reader, Department of Economics, Mangalore University. RCSS thanks him in anticipation of the trouble he is going to take for the cause.

We are thankful to management and staff of UTI Bank Ltd. Ville Parle (E), Branch, Mumbai who have promised us support in our banking activities. Now readers can deposit their subscriptions directly with UTI Bank anywhere in India and can save money on draft charges and postal charges. Please write to executive editor for further details.

Best wishes,
Executive Editor.

**GROWTH, STRUCTURE AND DETERMINANTS OF INDIA'S
IMPORTS 1980-81 TO 2000-01**

Dr. Mrs. Neena Malhotra¹ and Meenu²

An economy, which decides to embark on a program of development, is required to expand its productive capacity at a fast rate. For this, imports play an important role, especially for a developing economy. Composition of imports depends upon the size of the country, availability of resources and also on level and distribution pattern of income. Liberalisation policy since 1990's gave a boost to the Indian economy, which led to fast growth of imports for the purpose of industrialization as well as for export promotion. The period 1980 onwards is a very crucial period for the Indian economy due to vast changes in international economic order as well as domestic policy regimes. Imports sector, along with Indian economy, has undergone significant structural changes during this period. Hence the study of India's imports, its growth, structure and determinants during pre and post liberalization period covering 1980-81 & 2000-01 assumes importance.

The present study has been organized to analyse the growth, structure and import demand functions of total imports and some of major categories of imports for the period 1980-81 to 2000-01. For this study, the secondary data have been collected from the various issues of *Annual statements And Monthly Statistics of Foreign Trade, Economic Survey and Reports of Currency and Finance*. For the estimation of different import demand functions, the major determinants of imports are relative prices (ratio of Unit Value Index to Whole Sale Price Index), Gross Domestic Product at factor cost as income measure, Foreign Exchange Reserves as a measure of capacity to import and dummy variable as a policy variable. In case of various categories of imports domestic production and gross domestic capital formation (in case of Machinery category) are also important determinants. A dummy variable has been included to study the impact of liberalization policy on imports. The value of dummy variable is 'zero' for 1980-81 to 1989-90 and it is 'one' for 1990-91 onwards. In case of all the variables, excluding the dummy variable are at constant (1993-94) prices.

On the whole, the paper has been organized into three sections: -

Section I analyses the growth and structure of imports.

Section II deals with determinants of imports.

Section III deals with summary and conclusions of study.

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SECTION – I: Growth and Structure of Imports

Imports of India can be classified into bulk imports and non-bulk imports. At present bulk imports mainly consist of petroleum crude and petroleum products. Non-bulk imports consist of capital goods, export related goods and other imports. Capital goods comprise of metals, machine tools, electrical and non-electrical machinery, transport equipment etc. Export related products mainly consist of pearls, precious and semi precious stones etc. Other imports are professional and scientific instruments, chemicals, medical and pharmaceutical products, non-metallic minerals and manufactures etc.

According to the Table 1, the annual average growth rate of total imports for whole of the study period (i.e. 1980-81 to 2000-01) was 17.36%, the annual average growth rates for the periods of 80's and 90's, were 12.42% and 19.32% respectively. The growth rates for the periods 1980-81 to 85-86 and 85-86 to 90-91, were 9.04% and 18.27% and imports grew at the rates of 23.04% and 14.13% for the period 1990-91 to 95-96 and 1995-96 to 2000-01. (Table I) During 80's, import policies followed the liberal approach of providing necessary imported inputs for the industrial sector i.e. imports liberalization which lead to increased imports. Increase in prices of petroleum products by OPEC is also one of the reasons for increased imports. The main reasons for increase in imports during 90's were Gulf crisis of 1990-91 and import liberalization under new industrial and trade policies adopted by Govt. of India which was a part of structural adjustment program of IMF.

The categories for which imports have grown at higher rate during post-liberalization period (1990-91 to 2000-01) as compared to the pre-liberalization period (1980-81 to 1990-91), are mineral products, textile and textiles articles, machinery and parts, electrical and electronic equipments, live animals and products, cereals and cereal preparations, animal or vegetable oils and fat, sugar and sugar confectionery, stone, cement and similar products. Growth of imports of rubber articles, paper and paper board articles and base metal and articles of metal, also shows an increase but this increase is minor one. The imports of those categories which have grown at higher rate during pre-liberalization include products of chemical and allied industries, pearls, precious and semi-precious stones, wood, cork and articles, iron and steel, plastic and plastic articles, hides and skins, leather products, fur skins and articles, transport equipments, vegetable products, prepared food stuffs, beverages and tobacco and scientific instruments and apparatus.

Structure of imports shows that there are some categories which have consistently very high share in total imports like mineral products, products of chemicals & allied industries, base metals & articles of base metals, machinery and their parts, electrical & electronic equipment parts thereof, pearls, precious & semi precious stones and iron & steel whereas some categories have very low share in total imports like, live animals, animals products, instruments & apparatus clocks & watches, parts & accessories etc. (Table 2)

But in last five or four years of study period, the share of products of chemical & allied industry, machinery and their parts iron and steel, base metal and metals products, plastic and articles in total imports have been declining.

Leading, Lagging and Constant Imports:-

The imports whose share in total imports was very low in 1980-81 and continued to be so throughout the study period, can be described as low and constant imports (with share less than 0.5%). The imports whose share in total imports generally increased during the study period may be described as leading imports. Lagging imports and constant imports may be defined on similar lines.

The analysis of structural changes shows that the group of low and constant import includes prepared food stuff, beverages and tobacco, essential oils and cosmetic, explosive, matches, certain combustibles, glass and glass ware, clocks and watches, their parts and musical instruments, parts and accessories, hides and skins, leather products, fur skins and articles, ceramic products, medical pharmaceutical products and dyeing tanning and colouring matters.

The group of leading imports includes miscellaneous chemical products, wood, cork and articles, textile and textile articles, pearls, precious and semi-precious stones, metallic ferrous ores and metal scrap, machinery and their parts, electrical and electronic equipments and parts thereof, instruments and apparatus, optical measuring, medical, and similar instruments and parts, thereof.

The group of lagging imports includes live animal and animal products, cereals and cereal preparations, sugar and sugar confectionery, mineral products (primarily include crude petroleum and petroleum products), manufactured fertilizer, stone, cement and similar materials, iron and steel, base metal and metal products (non-ferrous metals), transport equipment (road vehicle and parts and air crafts, space crafts and parts).

Apart from these imports there are some import items whose shares fluctuated widely during the study period. These imports include vegetable products, animal or vegetable fats and oils, minerals products, products of chemicals and allied industries, railways/ tramways locomotives, truck etc., equipments and parts, ship, boats and floating structure.

Thus, the India's imports mainly consist of essential imports i.e. petroleum products, capital goods, raw materials and intermediates primarily meant for export-oriented industries. Hence, the present structure of imports is development oriented.

SECTION – II: DETERMINANTS OF IMPORTS

The major determinants of imports which have been included in the analysis, are relative prices (RP), gross domestic product at factor cost (GDPFC) as income measure, foreign exchange reserves (FR) as measure of capacity to import and dummy variable (Dum) as policy variable. In case of major categories other than total imports, level of domestic production (DP^n) and gross domestic capital formation (GDCF) may also be considered as determinants of imports. The value of dummy is 'zero' for 1980-

81 to 1989-90 and it is 'one' for 1990-91 onwards. Relative prices are the ratio of unit value indices (UVI) to wholesale price index (WPI).

While examining the relationship two types of import demand functions have been estimated i.e. in linear form and double log form.

Table I
Annual Average Growth Rates of Imports

	1980-81 to 85-86	1985-86 to 90-91	1990-91 to 95-96	1995-96 to 00-01	1980-81 to 90-91	1990-91 to 00-01	1980-81 to 00-01
1. Live animals aniproduct	-12.41	-19.72	47.45	21.50	-12.79	27.35	1.13
2. Veg products	25.77	29.26	21.75	6.54	30.97	15.41	20.39
3. Cereal & cereal products	0.44	30.72	-19.70	26.29	-4.82	4.57	0.86
4. Anior veg oils & fats	6.30	-18.01	43.91	28.27	-4.97	47.47	11.77
5. Sugar & sugar conf.	31.87	-47.08	137.23	20.89	5.19	46.75	14.13
6. Prop food stuff, tob.	31.22	56.27	24.25	6.69	59.72	12.36	34.58
7. Mineral products	0.38	21.14	17.71	19.20	4.55	18.64	16.05
8. Prod. of chem & allied ind.	18.49	62.22	-8.98	5.95	29.17	5.05	18.97
(a) Organic chemicals	22.21	28.16	36.44	1.79	23.20	18.73	22.67
(b) Inorganic chemicals	27.29	10.87	19.67	14.01	19.46	17.76	20.70
(c) Medi & pharma	17.53	5.06	0.72	20.40	7.67	11.52	9.95
(d) Manuf. fertilisers	13.51	10.99	26.42	-19.10	11.71	2.31	7.78
(e) Dyeing, tanning & col. matt	20.87	25.24	29.31	11.70	24.00	21.15	22.63
(f) Ess. oil & cosmetics	25.12	16.79	0.07	37.86	17.05	20.38	16.68
(g) Explosive : matches	-6.75	-2.25	2.93	21.77	3.76	10.50	7.01
(h) Misc. chemi. prod.	23.24	16.11	22.17	18.56	19.50	24.06	21.77
9. Plastic & plastic articles	21.95	29.55	19.83	0.75	28.15	12.03	19.93
10. Rubber & rubber articles	20.42	17.09	26.15	4.72	16.90	17.11	17.28
11. Hide, skins & leather	42.65	77.02	21.92	13.26	51.51	16.48	36.80
12. Wood, cork & articles	20.99	53.59	13.33	22.57	66.05	20.06	36.03
13. Paper & paper board articles	17.12	13.97	22.06	8.15	16.11	18.29	16.77
14. Textile & textile articles	9.12	20.4	34.92	13.09	11.89	19.95	17.58
15. Stone, cement & similar	-8.10	21.10	20.79	13.14	5.27	16.28	12.78
a. Artifi. stones plaster etc.	-23.02	7.79	23.36	11.63	-16.00	16.35	5.59
b. Ceramic products	26.76	25.50	17.32	10.93	22.38	14.77	19.36
c. Glass & glass products	13.46	26.52	21.94	14.74	24.04	17.04	18.86
16. Pearls, precious stones etc.	26.13	31.71	3.41	27.06	27.35	11.71	22.52
17. Iron & steel	4.70	15.99	17.62	-4.46	10.48	8.26	10.24
18. Base metals	7.65	17.04	33.14	-2.59	14.40	24.81	19.35
a. Metalliferous ores	16.84	26.85	18.29	11.32	24.35	13.80	20.29
b. Non-ferrous metals	2.50	20.07	26.71	-7.55	11.96	12.61	13.19
c. Manuf. of metals	14.33	8.10	25.72	21.46	10.45	24.22	17.29
19. Marh & their parts	22.78	10.47	30.66	8.35	16.04	20.72	17.50
20. Transport equip	3.32	23.45	29.66	1.36	15.70	14.27	14.70
a. Road vehicles & parts	28.49	7.25	21.20	-2.01	22.17	14.16	17.59
b. Railways/tramway	-9.77	86.04	-32.63	-5.03	22.58	-3.75	9.32
c. Aircraft, spacecraft	-19.65	47.35	56.97	0.91	8.35	5.63	10.32
d. Ship, boats & floating	29.84	24.54	-0.66	34.07	27.10	25.46	23.27
21. Instrument & Apprat.	15.50	27.54	18.34	-4.71	23.68	8.17	16.77
a. Opti measuring, medi.	17.28	30.13	18.66	16.29	25.93	17.68	21.06

b. Clocks & watches	0.17	11.47	9.57	12.34	10.28	15.13	10.44
c. Musical inst.	23.97	-40.71	57.55	8.19	-21.88	38.03	2.78
22. Works of art, collect	22.26	-6.44	69.37	8.47	11.88	38.63	26.36
Total imports	9.04	18.27	23.04	14.13	12.42	19.32	17.36

Table II
Structure of Imports in India (Percentage Share)

Category/Year	80-81	85-86	90-91	95-96	2000-01
1. Live animals: animal products	0.83	0.31	0.02	0.09	0.06
2. Vegetable product	0.76	1.42	2.15	1.67	1.24
3. Cereals and cereal preparations	0.80	0.56	0.42	0.06	0.04
4. Animal and Vegetable oils and fats & their beverage products: Ani and veg waxes	5.64	3.92	0.84	2.08	2.80
5. Sugar and sugar confectionary	0.70	2.13	0.04	0.19	0.03
6. Prepared food stuffs and beverages & tobacco	0.01	0.05	0.36	0.35	0.28
7. Mineral products	43.27	28.19	29.65	25.37	36.16
8. Products of chemical and allied industries	9.58	12.98	10.87	13.66	8.47
a. Organic Chemicals	1.61	2.64	3.68	5.43	3.16
b. Inorganic chemicals	1.24	2.90	1.99	2.37	2.15
c. Medical and Pharmaceutical products	0.67	0.90	0.65	0.28	0.30
d. Manufactured fertilizers	5.19	5.35	2.64	3.77	0.88
e. Dyeing, Tanning and coloring matter	0.16	0.29	0.39	0.42	0.38
f. Essential oils and cosmetics	0.07	0.14	0.18	0.07	0.16
g. Explosives: Matches certain combustible preparations	0.05	0.01	0.00	0.00	0.01
h. Misc. chemical products	0.35	0.62	0.66	0.65	0.78
9. Plastic and articles thereof	1.01	1.71	2.66	2.59	1.30
10. Rubber and articles thereof	0.39	0.75	0.76	0.87	0.56
11. Hides and skins: leather products, fur skins and articles thereof	0.01	0.06	0.45	0.38	0.40
12. wood, cork and articles	0.07	0.24	1.06	0.69	0.98
13. Paper and paper board and articles thereof	1.77	2.77	2.41	2.29	1.82
14. Textile and textile articles	1.78	2.09	2.07	2.66	2.32
15. Stone, cement and similar materials, ceramic products, glass and glassware	0.97	0.38	0.47	0.41	0.37
a. articles of stones, plaster, cement, asbestos, mica or similar materials	0.78	0.14	0.08	0.08	0.07
b. ceramic products	0.05	0.07	0.14	0.11	0.09
c. glass and glass ware	0.15	0.17	0.25	0.22	0.21
16. Pearls, precious and semi precious stones	3.32	5.59	8.70	5.74	9.57
17. Iron and steel	6.79	7.09	5.99	4.44	1.89
18. Base metal alloys and metal products	5.43	5.63	5.21	8.87	4.35
a. Metalliferous ores and metal scrap	0.92	1.84	2.80	2.24	2.19
b. non ferrous metals	3.80	2.76	2.55	2.46	1.07
c. manufacture of metals	0.71	1.02	0.70	0.76	1.09
19. Machinery and their parts electrical and electronic equipment parts thereof	10.74	17.88	13.48	17.21	13.68
20. Transport equipment	3.76	2.89	3.87	3.02	1.89
a. Road vehicles and parts	0.7	1.97	1.44	1.26	0.64
b. Railways, Tramway, locomotives, truck etc., equipments and parts thereof	0.37	0.17	3.24	0.14	0.08
c. Aircraft, spacecraft and parts	2.37	0.47	1.22	1.33	0.51

d. Ships, boats and floating structure	0.31	0.27	1.12	0.28	0.66
21. Instruments and apparatus, clocks and watches parts and accessories thereof	1.14	1.57	2.51	2.06	1.96
a. Optical measuring medical and similar	0.91	1.33	2.39	1.98	1.9
b. Clocks and watches and their parts	0.17	0.13	0.12	0.07	0.06
c. Musical instruments: parts and accessories	0.05	0.10	0.00	0.01	0.00
22. Work of art collectors pieces and antiques	0.00	0.00	0.00	0.00	0.00

1. Total Imports (TI)

Total imports have been assumed to depend upon relative prices, gross domestic product at factor cost, foreign reserves and policy variable.

$$TI = f(RP, GDPFC, FR, Dum)$$

where TI = Total imports

RP = Relative prices

GDPFC = Gross domestic product at factor cost

FR = Foreign reserves

Dum = Dummy or policy variable

Linear Form:-

$$TI = 342.505 - 675.899(RP) + 0.0013(GDPFC) + 0.0018(FR) + 8.55(Dum)$$

(1.475) (-3.924)* (5.219)* (2.335)** (0.131)

$$R^2 = 0.984, \bar{R}^2 = 0.980, F\text{-Ratio} = 247.58$$

Total imports are positively related with respect to income and negatively with respect to price variable (1% level of significant) and are also responsive with respect to foreign reserves (5% level of significant). Positive sign of policy variable shows positive impact of liberalization policies on total imports. Thus, total imports are responsive to both price and income variables. The value of R^2 and $\bar{R}^2$ are 0.984 and 0.980 respectively. F-ratio is significant at 1% level. The value of D-W statistic is 1.82.

Double Log Form:-

$$\log TI = -12.299 - 3.339 \log(RP) + 2.798 \log(GDPFC) - 0.330 \log(FR) + 0.136(Dum)$$

(-2.909)** (-2.901)** (3.399)** (-1.739)*** (0.756)

$$R^2 = 0.81, \bar{R}^2 = 0.77, F\text{-Ratio} = 18.20$$

In double log form, total imports are again found to be more elastic with respect to relative prices and income variable, both are significant at 5% level. Total imports are also positively related with respect to foreign reserves and it has been found to be significant at 10% level, but the foreign reserves have inappropriate sign. The policy variable has positive impact on total imports. The total imports are both price and income elastic. The values of R^2 and $\bar{R}^2$ are 0.81 and 0.77 respectively. The F-ratio is significant at 1% level and the value of D-W statistic is 1.585. Thus total

imports are both price and income elastic in both the forms. But values of R^2 , $\bar{R}^2$ and D-W are better in case of linear form.

2. Agricultural Imports (AI)

Agricultural imports have been assumed to depend upon domestic production, relative prices, income variable, foreign reserves and policy variable.

$AI = f(DP^n, RP, GDPFC, FR, Dum)$, where AI = Agricultural imports, DP^n = Domestic production,

Linear Form:-

$$AI = 86.532 + 1.056(DP^n) - 78.386(RP) - 0.0005(GDPFC) + 0.0001(FR) - 18.67(Dum)$$

$$(1.816)^{***} \quad (1.382) \quad (-2.565)^{**} \quad (-1.026) \quad (2.327)^{**} \quad (-1.377)$$

$$R^2 = 0.79, \bar{R}^2 = 0.73, F\text{-Ratio} = 11.94$$

Agricultural imports have been found to be responsive with respect to relative prices and foreign reserves (both are significant at 5% level). Domestic production, income and policy variable have not been found to be significant. Positive sign of domestic production shows increased domestic production of agricultural products and negative sign of policy variable is due to fact that Indian economy had already become self-sufficient and rather India exports many of the agricultural products. Thus, there is no positive impact of liberalization policies of 90s on agricultural imports. The value of R^2 and $\bar{R}^2$ are 0.79 and 0.73 respectively. F-ratio is significant at 1% level and the value of D-W statistic is 1.76.

Double log form:-

$$\text{Log AI} = -1.059 - 0.047 \text{Log}(DP^n) - 1.392 \text{Log}(RP) + 0.269 \text{Log}(GDPFC) + 0.304 \text{Log}(FR)$$

$$(-0.294) \quad (-0.038) \quad (-1.911)^{***} \quad (0.284) \quad (2.340)^{**}$$

$$-0.272(Dum)$$

$$(-2.102)^{**}$$

$$R^2 = 0.77, \bar{R}^2 = 0.69, F\text{-Ratio} = 10.048$$

In case of double log form, agricultural imports are elastic with respect to relative prices, domestic production, and foreign reserves. The foreign reserves and relative prices are found to be significant at 5% and 10% levels respectively. The policy variable is significant at 10% level, but has negative sign, which again confirms the self-sufficiency of Indian agricultural sector. The negative sign of domestic production is appropriate sign and positive sign of income variable is also appropriate but these variables are not significant. The value of R^2 and $\bar{R}^2$ are 0.77 and 0.69 respectively. The F-ratio is significant at 1% level and the value of D-W statistic is

2.10. The values of R^2 and $\bar{R}^2$ are better in case of linear form whereas value of D-W statistic is better in case of double log form.

3. Manufactured Imports (MI)

Manufactured imports have been assumed to depend upon domestic production, relative price, gross domestic product at factor cost, foreign reserves and policy variable.

$MI = f(DP^n, RP, GDPFC, FR, Dum)$, where MI = Manufacture imports,

Linear Form:-

$$MI = 470.369 + 6.575(DP^n) - 434.473(RP) - 0.0002(GDPFC) + 0.0034(FR) + 61.35(Dum)$$

(1.633)*** (1.060) (-2.603)** (-0.204) (4.298)* (0.985)

$$R^2 = 0.986, \bar{R}^2 = 0.981, F\text{-Ratio} = 218.32$$

Manufactured imports are found to be positively related with respect to foreign reserves, policy variable and domestic production. Out of these only foreign reserves are found to be significant (at 1 percent). The relative prices coefficient is negative and significant at 5% level. The positive sign of policy variable shows that with coming up of liberalization policies manufacture imports also increased, but policy variable has not been found to be significant. Positive sign of domestic production shows that domestic production increased due to increased imports of raw materials for manufacturing sector and hence increased domestic production of manufactures led to relative increase in imports of raw materials. The values of R^2 and $\bar{R}^2$ are 0.986 and 0.981 respectively. The F-ratio significant at 1% level of significance. The value of D-W statistic is 1.67.

Double log form:-

$$\text{Log } MI = -7.011 - 0.489 \text{ Log } (DP^n) - 0.551 \text{ Log } (RP) + 1.754 \text{ Log } (GDPFC)$$

(-1.537)*** (-0.629) (-2.072)** (1.650)***

$$+ 0.112 \text{ Log } (FR) + 0.013(Dum)$$

(2.284)** (0.388)

$$R^2 = 0.985, \bar{R}^2 = 0.980, F\text{-Ratio} = 198.23$$

Manufactured imports are highly elastic with respect to income and the coefficient is significant at 10% level. The coefficient of relative prices is negative and significant at 5% level. The coefficients of foreign reserves and policy variable are positive. The foreign reserves are significant at 5% level. The positive sign of dummy variable shows positive impact of liberalization on manufactured imports, but policy variable has not been found to be significant. Similarly, domestic production has negative sign, but has not been found to be significant. The values of R^2 and $\bar{R}^2$ are 0.985 and 0.980 respectively. The F-ratio is significant at 1% level and the value of D-

W statistic is 1.54. The values of R^2 and $\bar{R}^2$ are almost same in both the cases of linear and double log form, value of D-W is better in linear form.

4. Chemical and Chemical Products Imports (CI)

These imports include organic chemicals, inorganic chemicals, medical and pharmaceutical products, manufactured fertilizers, dyeing, tanning and colouring matter, essential oil and cosmetics, explosives, photographic and cinematographic goods and miscellaneous chemical products. These imports have been assumed to depend upon domestic production, relative prices, gross domestic product at factor cost, foreign reserves and policy variable.

$$CI = f(DP^n, RP, GDPFC, FR, Dum)$$

where CI = Chemical & chemical products imports,

Linear Form:-

$$CI = -88.777 - 1.938(DP^n) - 69.66(RP) + 0.0005(GDPFC) - 0.002(FR) + 1.346(Dum) \\ (-1.408) \quad (-2.053)** \quad (-1.841)*** \quad (3.189)** \quad (-1.529)*** \quad (0.081)$$

$$R^2 = 0.94, \bar{R}^2 = 0.92, F\text{-Ratio} = 52.01$$

The results show that chemical and chemical products imports have been found to be negatively related with respect to domestic production, relative prices and foreign reserves and positively related to income variable and policy variable. The domestic production and income variable are significant at 5% level whereas relative prices and foreign reserves are significant at 10% level, but foreign reserves have inappropriate sign. The positive sign of policy variable shows increased imports of this category with coming up of liberalization policies. The values of R^2 and $\bar{R}^2$ are 0.94 and 0.92 respectively and the value of D-W is 2.31. The F-ratio is significant at 1% level.

Double log form:-

$$\text{Log CI} = -5.909 + 0.064 \text{ Log } (DP^n) - 0.094 \text{ Log } (RP) + 1.222 \text{ Log } (GDPFC) \\ (-0.655) \quad (0.059) \quad (-0.168) \quad (0.623) \\ + 0.108 \text{ Log } (FR) + 0.026(Dum) \\ (0.775) \quad (0.259)$$

$$R^2 = 0.92, \bar{R}^2 = 0.89, F\text{-Ratio} = 36.12$$

The coefficient of relative prices is negative and all other variables have positive coefficients. All the variables have been found to be non-significant. Thus impost have been found to be highly income elastic. The values of R^2 and $\bar{R}^2$ are 0.92 and 0.89 respectively. The values of F-ratio is significant at 1% level and the value of D-W is 1.47. Thus, chemical and chemical products imports show better results in case of linear form as compared to double log form in terms of t-values, R^2 , $\bar{R}^2$ and D-W statistic.

5. Textile Imports (TxI)

These include the raw as well as manufactured products and articles of textiles. It include silk, wool, cotton, man-made filaments, man-made staple fibers, carpets articles of apparel and clothing accessories etc. Textile imports have been assumed to depend upon relative prices, domestic production, income, foreign reserves and policy variable.

$TxI = f(DP^n, RP, GDPFC, FR, Dum)$, where TxI = Textile imports, DP^n = Domestic production

Linear Form:-

$$TxI = 25.002 + 0.015(DP^n) - 30.075(RP) + 0.00015(GDPFC) + 0.0001(FR) + 4.125(Dum) \\ (3.634)^* \quad (0.145) \quad (4.524)^* \quad (0.997) \quad (3.838)^* \quad (1.311)$$

$$R^2 = 0.95, \bar{R}^2 = 0.94, F\text{-Ratio} = 70.71$$

In linear form textile imports have been found to be positively related with respect to income, foreign reserves, policy variable and domestic production. Relative prices and foreign reserves coefficients are significant at 1% level. Domestic production has positive relation with textile imports which might be because of higher imports of raw materials and intermediates. Income variable has positive sign but has not been found to be significant. Positive sign of policy variable shows positive impact of liberalization on textile imports. The values of R^2 and $\bar{R}^2$ are 0.95 and 0.94. The F-ratio is significant at 1% level. The value of D-W statistic is 1.86.

Double log form:-

$$\text{Log } TxI = -6.171 + 0.622 \text{ Log } (DP^n) - 1.365 \text{ Log } (RP) + 0.918 \text{ Log } (GDPFC) \\ (-2.654)^{**} \quad (0.817) \quad (-2.799)^{**} \quad (1.526)^{***} \\ + 0.153 \text{ Log } (FR) + 0.042(Dum) \\ (1.849)^{***} \quad (0.456)$$

$$R^2 = 0.92, \bar{R}^2 = 0.90, F\text{-Ratio} = 39.51$$

Textile imports, in case of double log form, are elastic with respect to prices and income. The relative prices coefficient has been found to be significant at 5% level. The income and foreign reserves coefficients have been found to be significant at 10% level. The positive sign of domestic production variable shows increased imports of raw materials and positive sign of policy variable shows positive impact of liberalization policies on textile imports. The values of R^2 and $\bar{R}^2$ are 0.92 and 0.90. The F-ratio is significant at 1% level. The D-W statistic is 1.53. The values of R^2 , $\bar{R}^2$ and D-W are better in case of linear form as compared to double log form.

6. Machinery and Machine Tools Imports (MhI)

It include electrical, non-electrical and electronic equipment and their parts etc. The import demand function of machinery and machine tool imports has been assumed to include domestic production, relative prices, foreign reserves, income

variable, gross domestic capital formation and policy variable as independent variables.

$MhI = f(DP^n, RP, GDPFC, GDCF, FR, Dum)$

where MhI = Machinery and machine tool imports

Linear Form:-

$$MhI = 21.893 - 1.247(DP^n) - 110.549(RP) + 0.0002(GDPFC) + 0.0007(GDCF) - 0.0001(FR) - 21.614(Dum)$$

(0.377) (-3.517)* (-2.729)** (2.063)** (2.662)**
(-0.148) (-1.774)***

$$R^2 = 0.97, \bar{R}^2 = 0.96, F\text{-Ratio} = 85.09$$

The coefficient of domestic production and relative prices are negative, where as the coefficients of income and capital formation are positive. The relative prices, income and capital formation have been found to be significant at 5% level, domestic production is significant at 1% level. The policy variable is also significant at 10% level but has negative impact on machinery imports. The values of R^2 and $\bar{R}^2$ are 0.97 and 0.96 respectively. The value of F-ratio is significant at 1% level. The value of D-W statistic is 2.04.

Double log form:-

$$\text{Log } MhI = -14.771 - 0.906 \text{ Log } (DP^n) - 1.732 \text{ Log } (RP) + 2.717 \text{ Log } (GDPFC) + 0.511 \text{ Log } (GDCF) - 0.001 \text{ Log } (FR) - 0.107 (Dum)$$

(-2.786)** (-1.575)*** (-4.444)* (1.979)**
(0.866) (-0.014) (-1.894)**

$$R^2 = 0.96, \bar{R}^2 = 0.94, F\text{-Ratio} = 56.22$$

These imports are elastic with respect to domestic production, relative prices and income. Domestic production coefficient is significant at 10% level and relative prices are significant at 1% level. The income and policy variables have been found to be significant at 5% level. Foreign reserves and policy variable have inappropriate signs, capital formation has positive sign but has not been found to be significant. Liberalisation policies also have negative impact on machinery imports. These imports are both price and income elastic. The values of R^2 , $\bar{R}^2$ and D-W, are 0.96, 0.94 and 1.93 respectively. The F-ratio is significant at 1% level.

Thus, results in both the forms are almost same, only gross domestic capital formation has not been found to be significant in case of double log form, but found to be significant in case of linear form.

7. Base Metals Alloys and Metal Products Imports (BI)

It include various metals and metal articles like metallic ferrous ores and metal scrap, non-ferrous metals, manufactures of metals etc. It is considered to depend on domestic production, relative prices, gross domestic product at factor cost, foreign reserves and policy variable.

$$BI = f(DP^n, RP, GDPFC, GDCF, FR, Dum)$$

where BI = Base metals, alloys and metal products imports, DP^n = Domestic production

Linear Form:-

$$BI = -17.660 + 2.103(DP^n) - 2.941(RP) - 0.00016(GDPFC) - 0.0001(FR) + 15.182(Dum)$$

(-0.595) (4.224)* (-0.245) (-2.152)** (-1.261)

(1.517)***

$$R^2 = 0.91, \bar{R}^2 = 0.88, F\text{-Ratio} = 31.92$$

These imports are positively related to domestic production and policy variable. The domestic production has been found to be significant at 1%, but has inappropriate sign. The income variable and policy variable have been found to be significant at 5% and 10% level respectively. But the coefficient of income variable is negative inappropriate. Foreign reserves is not significant and also has negative sign. The positive relation of domestic production with imports of base metals, may be because of increased raw material content in base metal alloys and metal products, which increases the domestic production. Positive sign of policy variable shows positive impact on these imports.

The $\bar{R}^2$, R^2 and D-W are 0.91, 0.88 and 1.82 respectively. The F- ratio is significant at 1% level.

Double log form:-

$$\text{Log BI} = 2.885 + 1.099 \text{ Log } (DP^n) - 0.748 \text{ Log } (RP) - 0.735 \text{ Log } (GDPFC)$$

(0.856) (1.407) (-2.917)** (-0.923)

$$+ 0.185 \text{ Log } (FR) + 0.184(Dum)$$

(2.107)** (2.750)**

$$R^2 = 0.94, \bar{R}^2 = 0.93, F\text{-Ratio} = 56.07$$

In case of double log form, the coefficient of relative prices is negative and significant at 5% level. Domestic production, foreign reserves and policy variable coefficients are positive and significant at 5% level of significance. Domestic production and income, both have been found to be non significant, also have inappropriate signs. These imports are price elastic but income inelastic. The R^2 , $\bar{R}^2$,

and D-W statistic are 0.94, 0.93 and 1.91 respectively. The F-ratio is significant at 1% level. Results of R^2 , $\bar{R}^2$ and D-W are better in case of double log form.

8. Mineral Imports (M_nI)

Mineral imports consist of mineral fuels, mineral oils, crude petroleum and petroleum products etc. Mineral imports are assumed to depend upon relative prices, income, foreign reserves and policy variable.

$$M_nI = f(RP, GDPFC, FR, Dum)$$

Where, M_nI = Mineral Imports.

Linear Form:-

$$M_nI = 170.368 + 232.949(RP) - 0.0004(GDPFC) + 0.003(FR) + 16.429(Dum)$$

$$(2.690)** \quad (2.269)** \quad (-2.368)** \quad (6.163)* \quad (0.467)**$$

$$R^2 = 0.94, \bar{R}^2 = 0.93, F\text{-Ratio} = 73.76$$

The coefficients of relative prices and income variables have inappropriate signs but are significant at 5% level. Foreign reserve variable coefficient is positive and significant at 1% level. Positive sign of policy variable shows increased imports of minerals during liberalization period. The values for R^2 , $\bar{R}^2$ and D-W statistic are 0.94, 0.93 and 1.76 respectively. The F-ratio is significant at 1% level.

Double log Form:-

$$\text{Log } M_nI = 3.135 + 0.283 \text{ Log } (RP) - 0.394 \text{ Log } (GDPFC) + 0.328 \text{ Log } (FR)$$

$$(0.750) \quad (0.447) \quad (-0.506) \quad (2.704)**$$

$$+ 0.089(Dum)$$

$$(0.782)$$

$$R^2 = 0.85, \bar{R}^2 = 0.81, F\text{-Ratio} = 23.12$$

Mineral imports, in case of double log form, are inelastic with respect to prices and income, both these variables are also have inappropriate signs. Foreign reserves variable coefficient has been found to be significant at 5% level. Positive sign of policy variable shows positive impact of liberalization policies on Mineral imports. The values for R^2 , $\bar{R}^2$ and D-W are 0.85, 0.81 and 0.85 respectively. The f-ratio is significant at 1% level. Thus, both the forms show the mineral imports mainly depend upon foreign reserves i.e. capacity to imports. The mineral imports are price and income inelastic and policy variable shows positive impact of liberalization on mineral imports.

SECTION III: SUMMARY, CONCLUSIONS & FINDINGS

The results of the analysis show that total imports have been found to be strongly influenced by income and relative price variables in both the estimated forms. Total imports are also positively related with respect to foreign reserves in case of linear form.

Agriculture imports are elastic with respect to relative prices and foreign reserves, income variable has not been found to be significant in both forms. The negative sign of policy variable in both the forms shows self-sufficiency of the agricultural sector and now India exports many of its agricultural products. So, the results show significant decline in agricultural imports during post-liberalization period.

Manufactured imports are income elastic and positively related with foreign reserves. Relative prices significantly influence manufactured imports in both the forms. It is clear from the results that, these imports have grown at higher rate during the post liberalization period.

Chemical and chemical products imports are negatively significantly related with respect to relative prices and positively significantly related with income variable in case of linear form. Positive sign policy variable shows increased imports of this category in the wake of liberalization. These imports are income elastic as shown by double log form. Positive sign of domestic production in case of double log form shows increased intermediate imports of this category.

Textile imports are elastic with respect to relative prices and income variables as shown by double log form. Positive sign of domestic production variable might be due to high imported raw materials of this category during study period and liberalization has positive impact on textile imports in both the forms.

Machinery and machine tool imports are elastic with respect to prices and income. Both the forms show significant negative impact of liberalization on these imports.

Base Metals alloys and metal products imports are significantly negatively related with respect to relative prices in double log form. The income variable is negative i.e. having inappropriate sign in both the forms. The positive sign of domestic production variable show increased imports of raw material of this category to increase the domestic production, which is also confirmed by positive sign of policy variable.

Mineral imports are elastic with respect to foreign reserves and policy variable. These imports are both price and income inelastic in both the forms.

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Commentary

CHALLENGES TO COMMERCE EDUCATION: THE ERA OF WTO

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INTRODUCTION

Education is a mode transforming the unskilled into skilled. It has a unique character that plays a vital role in the life of any human being. An educated human being is a real human resource and is considered as an important asset of any concern or country. Therefore education is a very important tool to restructure the personality of the individual. Among various stages in education, Higher education is placed in an important place for the growth of economy and Nation. Here commerce is a branch of various subjects in higher education. At present in India, commerce education is considered, as a professional education in arts and social science studies. Even now the demand for commerce education is more. Now, Indian Government signed up the treaty of WTO. Accordingly, each and every nation should accept, the treaty on GATS (General agreement on Trade in services). This treaty emphasizes, the free movement of any institution running higher education anywhere else in this world. If such free movement is allowed, it could be visualized that the survival of any institution having higher education system will be very challenging. The question of survival of these institutions depends upon its maintaining the international standard. On this line, commerce education has to meet out all problems due to GATS in 21st Century. The present paper is evolved on the basis of the following objectives.

- (a) To study the historical background of commerce education.
- (b) To assess the present trend in commerce education
- (c) To identify the challenges for commerce education in 21st Century.
- (d) To focus the need based changes in commerce education
- (e) To point out the issues emerged out of its challenges.

HISTORY OF COMMERCE EDUCATION

Historically in India, the 'munims', traditional accountants, used to be trained by the experienced ones under their apprenticeship. In this method, prospective 'munim' was taken as assistant and was taught on the job. In fact, this could not meet out the necessity of a developing business. Therefore the private commercial shops started the teaching of book keeping. This is the origin of developing commerce education. In this venture, the Companies Act that was passed in 1850 created awareness among institutions to establish commerce education in India. The first

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commercial school was started in Madras in 1886, by the Trustees of Pachiappas Charities. In the same period, the Government of Madras instituted examination in commerce. In 1895, the Government of India started school of commerce in Calicut. The common subjects taught were

- i) Business methods ii) Letter Writing iii) Type writing iv) Short hand

In due Course commerce classes were started in Presidency College, Calcutta in 1903. Separate commerce institutions were also established in Bombay and Delhi between 1903 and 1912. It got momentum in establishing commerce education at the collegiate and the university level immediately after starting of the Sydenham College of commerce and Economics in Bombay in 1913. This education was established as a professional course. And thereby more and more professional institutions were setup in the 1920s and 1930 up to the undergraduate level. The programme at master level was first introduced by Allahabad University in 1941. After independence upto 1970, the expansion of commerce education was at a faster rate than the rate of expansion of university education as a whole. Even now the craze over this course among students is more.

TRENDS IN COMMERCE EDUCATION

Many people misconstrue the term commerce. Obviously they relate this term with Business. At micro level both are same. Difference is seen at macro level. However commerce is a part of business that includes industry and commerce. On the other side, business is a branch of economics. Therefore commerce is a branch of economics. The commerce includes book keeping, finance, management account, costing, higher accounting, financial accounting, banking, insurance, transport, storage, marketing, advertisement, salesmanship and the like. It also deals with related aspects like management, organization, administration, human resource management and the like. Dealing of these in a course is called commerce education. Therefore, in general, commerce education means education in the area of trade and related aspects including service sectors. Though it covers many aspects as mentioned above, over the year it has been developed in a haphazard manner. The objective of it was not properly outlined even at the time of originaton. Various commissions on higher education did not spell out the very basic objective of commerce education. Especially the Radha Krishnan commission viewed that it was intended to produce commerce graduate who could take their place in secretarial or junior administrative post in commercial concerns. According to the special committee for commerce education 1961, it was reported "The students of commerce are expected to develop knowledge of principles and practice of commerce to understand and analyze the structure of operation of the world business". In another context, under the Mussorie seminar on the planning on business education, it was pointed out, "it is a liberal discipline and in no sense professional or technical education.... Its purpose is to give a broad and general education to develop the minds of the students as a sharp and sensitive instrument of analysis and constructive thinking, thought, functional competence also develops in this process spontaneously". These reports clearly view that commerce

education deals only with trade and its related activities alone. But in modern sense, it could be different. According to Fredrick G. Nichols, “The primary objectives of commerce education is to prepare the people to enter upon a business career or having entered upon such career to render more efficient service there in and to advance from their present level of employment to higher levels.” The objectives being marked by various committees or commissions may be generalized and presented with new outlook as such “the main aim of commerce education, in broader sense is a general and liberal education and in specific is a kind exercise to develop skill for a business career depending on the opportunities available.

At present commerce education at university levels or college level, is compartmentalised into three stages. The first stage is undergraduate programme, the second stage is postgraduate programme and the final stage is research programme. Normally at undergraduate level the programme is in general and liberal. At this stage there is no specific specialization in it. But mostly this is treated as professional course in arts and social science and has heavy rush for this programme. The students opt this course in order to lay a strong foundation for future career or education such as C.A., C.S., ICWA., MBA., MCA., BL etc.. However, it could be visualized that there is no uniformity in the curriculum at different places.

At post graduate level, the students are imparted with commerce knowledge in depth to get them trained for teaching position either at school or college or university. Again at final stage, gaining of research knowledge is the main aim. But may be considered as additional qualification and a step – in - stone for teaching position.

With regards to admission, creams of arts students from schools or Junior Colleges enrol themselves at undergraduate level. But the creams of undergraduate students choose only the professional courses like C.A, C.S, ICWA, B.L, M.BA, M.CA, etc. The remaining students with high ambition of teaching position prefer postgraduate and research programmes. Therefore, demand for post graduate and research programme is very low.

CHALLENGES IN WTO ERA

Commerce has been a very attractive subject of study right from its beginning. The society had a thought at the time of introduction of this course that it would be a job oriented subject. Even now they have the same kind of perception. It was true at that time beginning. Of late, commerce is a subject of study facing a lot of challenges from a number of new innovative management courses. These developments have greatly reduced the employability of commerce graduates to the bare minimum.

In addition to it, the present atmosphere in India is also made further complicated to commerce education. The new economic policy supports liberalization,

privatization and globalization (LPG). This poses a lot of changes in Indian economy. This also leads to pave the way for Multinational Corporation. The world class products and services are available at competitive prices due to WTO agreement. As a result, there would be tremendous implications on commerce education system. The students shall have to be exposed to the international standards and practices so that they can have good job prospective in future. Therefore the expected challenges are presented as follows.

- A large number of foreign universities are expected to launch their programme in India. This will tempt the resourceful students to opt such programmes.
- Further Indian government instructed all Bankers to lend educational loan up to 7.5 lakh without surety. This will again instigate all types of people invariably belonging to any status of income group, to choose foreign programme.
- Many universities in India are not recognized by many foreign universities. In this situation getting a degree from foreign university by our people will be inevitable.
- In 2003-04, the allocation for secondary and higher education is Rs. 2,125 crore. This amount is not sufficient for its development. It is also observed that the government India reduces the allocation to higher education year by year. Therefore, a large number of private institutions under unaided scheme entered into commerce education system. Though they charge heavily but the allocation of fund for staff and infrastructure is very poor. Further from 2005 onwards a large number of foreign intuitions will give a tough competition to both aided and unaided stream of education in India. Here it is expected that the foreign institution will maintain international standard in quality of education, payment of salary and maintaining infrastructure. In simple they will take heavy amount from our people for which they will pump a large chunk of their investment to establish such competitive programme in India.
- Indian commerce education is fully controlled by UGC. But the education pattern of foreign universities is controlled by their own rules and regulations subject to their government regulations. In this case, even if a candidate fulfils their conditions in acquiring degree, he or she can get degree in short span of period. Therefore this will much attract the potential students.

NEED BASED CHANGES

The present curriculum of commerce education focuses on more contemporary issues. Now is the time to think over these very carefully. A meaningful commerce education will lead our nation into the developing stages. It is necessary to redesign our curriculum for the sake of the development our nation. In designing syllabus, the following objectives should be considered:

- To create the tendency of job provider rather than job seeker.
- To impart knowledge on commerce to all for a bright carrier opportunity.

Based on these, the syllabus can be framed for four important stages. In first stage, at higher secondary level, the subject should cover fundamental and basic education on commerce. The second level is undergraduate level in which the subject should be taught in breadth wise. This means students should be allowed to learn different subjects including subjects in arts and science. The third stage, the postgraduate level is the level of learning the subjects in depth. Here the subject should be taught in depth or detailed. The forth level is research. At this stage the specialization is emphasized. All these four stages are, basic, general, advanced and specialized stages. At basic level, the subjects to be included are commerce and accountancy. The basic level is the introductory level, which should cover all basic concepts relevant to commerce and accountancy.

The general level should cover all subjects, in general such as:

- (a) Division - I - First Language
- (b) Division - II - Second Language
- (c) Division - III - Major Subjects
- (d) Division - IV - All subjects other than commerce
- (e) Division - V - NSS, NCC, Physical education and the like

Even in majoring a subject especially in commerce, it should cover all subjects, such as Finance, Marketing, Accounting, Human resource management and communication system: Depending upon the need and necessity, the students can be encouraged to opt necessary other subjects in arts and science. N.S.S., N.C.C., Physical education and the like can be made it compulsory. Any one of these can be chosen for getting degree. These could be achieved only through choice based credit system.

The advanced level, that is postgraduate level, the majoring subjects should be taught in advanced or in depth. This could help students to get through on each subject. The specialization process evolved only at fourth stage, knowing it as research and development level. These four stages may also be called as basic, inter discipline, intra discipline and in discipline.

SUGGESSTIONS

The discussions made above draw attention on commerce education to restem for new style if its development. For these, it needs the following suggestion to maintain its demand and image.

- The goal or objective for commerce education should be spelled out clearly.
- A separate forum or Board should be formed as a whole for preparing its policy common curriculum and objectives.
- Undergraduate programme should be sustained as liberal and general covering all aspects of commerce.

- Post graduate and research programmes should be developed as professional, job oriented and competitive oriented. At post graduate level, the specialization should be specified such as, Master Degree in Commerce with specialization in finance, marketing accounting, Management and administration, communication system, and the like.
- Case study, practical training, project work both mini project and major project, and industrial visit should be inculcated with teaching methodology of commerce education.
- Industrial tie up should be considered as very essential for providing training and placement to students.
- International standard of quality and infrastructure should be maintained for providing good education to commerce students.

SUMMARY

Commerce education is always a demand-oriented education. It has had lot ups and downs. However, it maintains its popularity on par with professional education in general. It has a lot of challenges in 21st Century due to GATS. This could be considered as a benchmark for change in commerce education. If it is reformed on par with international standard, it will be possible to make this curriculum as an alternate tool for economic growth of our country.

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Commentary

FOREIGN EXCHANGE RESERVES OF INDIA

Sumanjeet Singh¹

The foreign exchange reserves of the country consist of foreign currency assets held by RBI, gold holdings of the RBI and SDRs. Foreign exchange reserves are held by RBI to promote stability in the foreign exchange market, sustain confidence in the country's ability to meet its external obligations, back the domestic currency by external assets, enable the government to meet its foreign exchange needs, and finally act as a buffer for dealing with national emergencies. The surge in the forex reserves has been an enduring phenomenon since the beginning of economic reforms in 1991. In over a decade of economic reforms, the level of foreign exchange reserves has steadily increased all the years except 1995-96. Hardly any week passes without the Reserve Bank of India, the Central Bank, mopping up excess dollars from the market and adding to its swelling wallet. The forex reserves, which stood at US \$ 5.8 billion at the end-March 1991 increased gradually to US \$ 25.2 billion by end-March 1995. The growth continued in the second half of the 1990s, with the reserves touching the level of US \$ 32.5 billion in 1998 and US \$ 38.0 billion by end-March 2000. The year 2002 and 2003 registered a rapid growth in India's foreign exchange reserves.

(Table 1) Growth of Forex Reserves in India (in US million \$)

Date	FCA	SDR	GOLD	Forex Reserves
Sep. 30, 2002	59,663	10 (7.4)	3,300	62,973
Dec.31, 2002	66,994	7 (5.0)	3,444	70,445
Mar.31, 2003	71,890	4 (2.9)	3,534	75,428
Jun. 30, 2003	78,546	1 (0.9)	3,698	82,244
Sep. 30, 2003	87,213	4 (2.5)	3,919	91,136

Source: RBI Bulletin

Note: 1. FCA (Foreign Currency Assets): FCA is maintained as a multicurrency portfolio, comprising major currencies, such as, US dollar, Euro, Pound sterling, Japanese yen, etc. and is valued in US\$.

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2. SDR: Values in SDR have been indicated in parentheses.

3. Gold: Physical stock has remained unchanged at approximately 357 tonnes.

Subsequently, the reserve rose to US \$ 54.1 billion by end-March 2002, US\$ 75.4 billion by end-March 2003 and US \$ 91.1 billion by end-September 2003. Further over US \$ 106.0 billion on the January 2004. India's foreign exchange reserves including the reserve position in the IMF stood at US \$ 113.0 billion on March 31, 2004.

Improved Status of Forex Reserves

Thus forex reserves of India are getting bulkier by the day. At last count in April 2004, it crossed a record level US \$ 118.5 billion mark. It is impressive that India is top ten among the 175 countries. As a result, India has won applaud from International Monetary Fund that its foreign exchange reserves are at a comfortable position and that it does not need any finance from IMF. Global rating agency Moody's Investors Services on January 22, 2005 raised India's long term foreign currency rating to investment grade Baa3 due to a reduction in external vulnerability, rising foreign investment and vibrant economic growth. Moody also revised upward its outlook on the Ba2 country ceiling for foreign currency deposits from negative to stable. The outlook on the Government's Ba2 domestic currency rating remains negative. Earlier Standard and Poor had raised India's foreign currency 'BB' long-term foreign currency rating outlook to stable from negative. The agency retained the 'BB+' long-term local currency rating on negative outlook, citing problems in addressing its fiscal concerns and structural reforms. The upgrade, triggered by the rise in forex reserves, will make external commercial borrowing by Indian companies cheaper.

The Reasons for Huge Upsurge

Why have India's forex reserves burgeoned? The reasons are many, which could be generalized in recent times. RBI attributes it to three factors: (1) Booming software export revenues and remittances from Indian workers abroad; (2) Timely repatriation of export earnings back to India by exporters; and (3) Strong inflow of both FDI and FII. An analysis of the source of reserves accretion during the entire reform period from 1991 onwards reveals that the increase in forex reserves has been mostly facilitated by an increase in the annual quantum of foreign direct investment (FDI) from US \$ 133 million in 1991-92 to US \$ 4.7 billion in 2002-03. During 2003-04, foreign direct investment into India at US \$ 4.5 billion fell marginally short of the previous year's level of US \$ 4.7 billion. The service sector was the largest recipient of FDI inflow. Mauritius remained the largest source of FDI flow to India followed by the USA, the Netherlands and UK. FII investments into Indian capital market, which commenced in January 1993, have increased since then. Cumulative net FII investments increased from US \$ 827.0 million at end-December 1993 to US \$ 19.2

billion at end-September 2003. Non-resident Indians (NRIs) also shared in international investor confidence in India. During 2003-04, net inflow into NRI deposit schemes at US \$ 3.6 billion surged above US \$ 3.0 billion recorded in 2002-03. Turning to the current account, India's exports which were US \$ 17.9 billion in 1991-92 increased to US \$ 52.7 billion in 2002-03. Invisibles, such as private remittances have also contributed significantly to the current account. During April-September 2003, net invisible inflow amounted to US \$ 12.3 billion. India's current account deficit, which was as high as 3.1 percent of GDP in 1990-91, turned into a surplus of 0.7 in 2002-03.

Optimal Reserves

The optimal level of reserves has always been contentious. Normally, countries keep some foreign exchange reserves as an insurance against sudden financial crisis or panic. If imports were to shoot up or if foreign investors were to suddenly pull their money out of the stock market, the central bank needs to have enough money in the kitty to meet their dollar demands. Otherwise, the Rupee would go into a tailspin. And the rest of the economy could follow, as it happened in the East Asia in 1997. But fortunately India's foreign exchange reserves are more than adequate level. In fact it is over-insured.

In terms of trade related reserve adequacy indicators, India's foreign exchange reserves at about 17 months of imports are higher than other EMEs in Asian countries. Last year it was about 15 months of imports. India's ratio of reserves to short term debt comfortably satisfies the adequacy criterion vis-à-vis comparator countries. In term of overall external debt and total external liabilities, India's forex reserves are broadly adequate (while determining the adequacy of reserves, due attention should be paid to payment obligation, in addition to the traditional measure of import cover of 3 to 4 months). As regards the money-based indicators, India is far below East Asian Economies, indicative of the vulnerability of economic activity to any possibility of massive capital outflows. Furthermore, the ratio of India's reserves to GDP is the lowest among the major EMEs of Asia.

The ratio of reserves to GDP in India has risen from 13.9 per cent in 2002 to 17.6 percent in the end – March 2004. This ratio stands at near 23.5 per cent in China, 24.1 per cent in Korea, 91.5 per cent in Singapore and 69.3 per cent in Hong Kong

Investment Pattern of Forex of India

India's foreign exchange reserves are invested in multi-currency, multi-market portfolios as per the existing norms, which are similar to international practices in this regard. As at end-September 2003, out of the total foreign currency assets of US \$ 87.2 billion, US \$ 31.7 billion was invested in securities, US \$ 39.6 billion was deposited with other central banks and Bank for International Settlements (BIS) and

US \$ 15.8 billion was in the form of deposits with foreign commercial banks. The RBI currently holds 63 percent of its reserves in deposits and 37percent in securities. Despite the assertions of the RBI on the quality of reserves, it is obvious that the bulk of the reserves are placed in the low – return bank deposits.

(Table 2)Reserve Adequacy Indicators

Criteria	India	China	Korea	Singapore	Hong Kong
<i>Trade-related indicators*</i>					
Import cover (months)	17.3	12.8	11.0	9.5	6.4
Current payments cover	13.2	12.4[@]	8.8	6.4[@]	5.2
<i>Debt related indicators[#]</i>					
Reserves to external debts	90.8	126.7	77.2	56.9	32.9
Reserves to short term external debts	1521.7	490.9	280.7	81.1	48.8
Reserves to total external liabilities					
<i>Money based indicators*</i>	46.9	NA	43.3	29.3	16.3
Reserves to broad money					
Reserves to reserve money	24.2	16.3	35.2	88.3	30.0
<i>Macro indicators[@]</i>	111.0	66.0	478.8	833.0	328.2
Reserves to GDP					
Data pertain to end-March 2004	17.6	23.5	24.1	91.5	69.3
# Data pertain to end-December 2003					
@Data pertain to end-December 2002					

- Source: 1. International Financial Statistics, IMF.
2. Websites of the concerned central banks.
3. R.B.I. Bulletin

Countries such as South Korea and Japan hold almost 85 percent of their reserves in securities, reflecting the quality of their reserves. This, to some extent, signals the quality of India's reserves, too. While there is comfort from the quantum of reserves, its quality needs significant improvements.

Question of Utilizing

The question is not how high or low the forex reserves are, but the \$ 110 billion plus are put to good use. It must also be noted that a sizeable amount of billions of these reserves is 'hot money'. Once the hot money component is omitted, the actual reserves are less than 100 billion but since India has managed to beef up its reserves, it must be utilized properly rather than wasted. It is also important to note that huge forex reserves is mostly made up of FIIs participation, which could be driven away at any time, mostly during crisis times, because foreign investors who engage in speculative trade on stock

markets have no long term interest and permanent stock in the growth of domestic economy of the developing countries such as India. Their interest is in making large profits from minimum short-term investment and repatriation of their gains abroad as quickly as possible. However, RBI has already taken number of decisions towards effective management of forex reserve. It has, for instance, decided to prematurely repay its loans worth US \$ 2 billion from the 'World Bank and Asian Development Bank. The emphasis is on efficient management of reserves and India's policies like efficient use of technology, sound management of market risks, sophisticated risk management techniques and determination of optimal currency composition are comparable with international best practices, said a recent report of International Monetary Fund on "Guidelines for Foreign Exchange Reserve Management".

Management of Reserves: Legal Framework

The Reserve Bank of India Act, 1934, provides the essential legal framework of reserves management. Specifically, sub-section 17(12), 17(12A), 17(13) and 33(1) of Reserve Bank of India Act, 1934 define the scope of investment of external assets. In brief, the law broadly permits the following investment categories:

- Deposits with other central banks and Bank for International Settlements (BIS)
- Deposits with foreign commercial banks.
- Debt instruments representing sovereign/sovereign-guaranteed liability residual maturity for debt papers should not exceed 10 years.
- Other instruments/ institutions as approved by the Central Board of the Reserve Bank in addition, the Reserve Bank has framed appropriate guidelines stipulating stringent criteria for issuers/ counterparties/ investors with a view to enhancing the safety and liquidity aspects of the reserves.

Concluding Remarks

But despite so many apprehensions, the prudent steps could be to use the reserves in infrastructure building creating assets, and putting in optimum use to recharge the second phase of economic reforms of the country; nevertheless, short term funds should not be used for long term purposes. The reserves need to be utilized to revitalize the economy. A part of the burgeoning forex reserves could have been used to finance the import of capital or intermediate goods, or to reduce costly foreign debt or to develop, say the power or transport infrastructure. The central bank could

issue its own securities to make up for the shortage of government securities in its portfolio. The RBI could raise the Cash Reserve Ratio (CRR)- the balance that banks have to maintain with the central bank. This offsets the increase in money supply caused by every dollar that the RBI adds to its reserves. The RBI needs to start building relationships with global institutions to strategically revamp its management of reserves. The RBI could simply stop buying excess dollars and let the rupee appreciate against the greenback. A rising rupee will be magnet for foreign capital, and the RBI will have to manage these inflows. Thus there is huge battle ahead. And the RBI just does not have the firepower to fight the battle as before. It needs new weapons in its armoury.

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INVESTMENT CLIMATE FOR FDI FLOWS: THE EXPERIENCES OF CHINA AND INDIA

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Introduction:

A good investment climate drives growth by encouraging investment and higher productivity in developing countries. Though investment underpins the economic growth by bringing more inputs to the production process, it is not just the volume of investment that matters for growth, rather it is the productivity gains that results in. Further, a good investment climate makes it easier for firms to enter and exit markets in a process that contributes to higher productivity and growth in recipient countries. Developing countries, emerging economies and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernization and employment generation, and have liberalized their FDI regimes to attract investment. The overall benefits of FDI for developing economies are well documented. Given the appropriate host country policies and a basic level of development, a preponderance of studies show that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps to create a more competitive business environment and enhances enterprises development. All these contribute to higher economic growth. Beyond the initial macro-economic stimulus for actual investment, FDI influences growth by increasing total factor productivity and, more generally, the efficiency of resource use in the recipient economy. Technology transfers through FDI generate positive externalities in the host country. The benefits from FDI do not accrue automatically and evenly across countries and sectors. In order to reap the maximum benefits from FDI, there is a need to establish a transparent, broad and effective enabling policy environment for investment and to put in place appropriate framework for their implementation. Such an environment must provide incentives for innovations and improvement of skills and contribute towards improved competitiveness.

Government policies and behaviors shaping the investment climate play out over a broad domain, from contract enforcement, business regulation, and taxation -to finance electricity supply, and labor markets. Governments typically administer each area in isolation, distributing responsibilities across a range of ministers and agencies. In contrast, firms tend to view particular investment opportunities as a package, with government policies and behaviors that influence the costs, risks, and barriers to competition as part of that package. Why might this matter?.

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First, the impact of any policy improvement will depend on how it addresses a constraint that is actually binding on firms. So expanding access to credit will not have much impact on firms' investment decisions-an effort sometimes described as "pushing on a string" - until more fundamental concerns about the security of their property rights have been addressed. Providing tax breaks may not be enough to compensate for other weaknesses in the investment climate in some situations-but may be unnecessary in others. Similarly, introducing a competition law may not have a big impact on the economy when the main barriers to competition stem from trade restrictions, government monopolies or other regulatory barriers to entry and exit.

Second, different areas of the investment climate policy can interact. Clarifying rights to land can help ease access to credit by firms and households-but only when complementary aspects of financial infrastructure are in place. Reducing barriers to trade will not deliver its full potential if weak bankruptcy laws slow the exit of less efficient firms, or if labor market policies limit the ability of firms to adjust production processes to respond to a more competitive environment. Similarly, efforts to encourage local R&D can be hobbled by shortages of skilled workers, limited completion, or weak intellectual property rights.

So investment climate improvements involve more than one-off, "stroke-of-the - pen" reforms. But this does not mean that simultaneously and comprehensive reform is necessary for significant results. Indeed, efforts to tackle the full set of investment climate policies simultaneously, even if technically feasible, could generate so much uncertainty for firms that it might deter rather than encourage investment, at least temporarily. Deep and rapid institutional change can also be disruptive for society, possibly undermining public support and thus the sustainability of reform. So some sequencing of reforms is inevitable in a field as broad as the investment climate. Fortunately, experience shows that countries can reap significant benefits by addressing important constraints to investment-and sustaining a process to address other constraints as they become more binding.

Take China, the country enjoying the world's fastest growth and poverty reduction in recent years. The reform that ignited growth was the introduction of a rudimentary system of property rights, initially for ownership and village enterprises and then for individual farmers and entrepreneurs. Once official targets were met, additional production could be sold for personal gain. The improvements unleashed a strong response because of the size of the economy benefiting from the change, and because the changes were implemented in ways that gave people the confidence to invest.

Over the last two decades there has been a change in the approach towards assessing the impact of FDI flows on the recipient economy. According to the more recent endogenous growth theory, FDI is considered as a composite of capital, know-how and technology (Balasubramanyam et al., 1996) and under this approach, FDI can have a permanent positive impact on economic growth through generating increasing returns to scale through externalities and positive productivity spillovers (de Mello, 1997). Thus, the positive impact of FDI is expected to encourage through the use of new inputs and technology in the recipient economy, in addition, FDI or even purely

technical change in managements in the recipient developing countries (de Mello and Sinclair, 1995). Further, the positive impact of FDI is generally higher for recipient countries with a higher level of development, which implies that, in the absence of a minimum threshold level of development the positive impact of FDI would remain confined to particular FDI enclaves of the economy (Borensztein et al., 1995). Generally the benefits of FDI can be realized fully only if the economy's saving rate is less than domestic investment, i.e., in the context of a current account deficit and, if the absorptive capacity of the economy is weak, higher FDI inflows could end up in higher foreign exchange reserves. The spillover effect of FDI is also found to be the highest in industries with high level of technical development and low concentration of foreign firms. As Zhao (1995) observed, indigenous technology capabilities have been found to be positively associated with technology import, research and development in the recipient country, output growth and manufacturing exports. In fact, compared with firms under pure domestic ownership, FDI firms generally have higher capital intensity, exports to sales ratio and imported input component. There is, however, a tendency of technology imports to shift from physical capital –intensive to human capital-intensive type over time.

Though the economic benefits of FDI are generally difficult to measure with precision, however, a liberal policy towards FDI inflow is necessary and not sufficient for reaping the benefits of globalization as there is scope for occurrence of market failures for attracting FDI flows. But it is worth to note that though recently India and China have achieved rapid sustained economic growth their rates of progress have been quite indifferent and today, China is the larger recipient of FDI followed by India among developing countries. The timing, pacing and context of FDI liberalization and the overall development strategy in the two countries seems account for the difference in the FDI performance. The recent experiences also indicate that China is more attractive than India in terms of the macroeconomic environment, market opportunities and policy orientation towards FDI. India on the other hand, scores better on the political environment, taxes and financing. Besides, it is also seen that China has a better FDI policy treatment, market growth, and consumer purchasing power, rate of return, labor law and tax regime than in India.

Most developing countries consider FDI as an important channel for accessing resources for economic development. FDI represents transfer of a bundle of assets like capital, technology, and access to export markets, skills and management techniques and modern environment management system. FDI inflows are necessary, but not sufficient of globalization. Over the last two decades there has been a change in the approach towards assessing the impact of FDI flows on the recipient economy. In the earlier approaches, the impact of FDI on growth was found to be limited in the short-run since long-term growth was largely considered to be contingent upon technological progress (Grossman and Helpman, 1991). On the other hand, according to the more recent endogenous growth theory, FDI is considered as a composite of capital, know-how and technology (Balasubramanyam et al., 1996). Under this approach, FDI can have a permanent positive impact on economic growth by

generating increasing returns to scale through externalities and positive productivity spillovers (de Mello, 1997). The positive impact of FDI is expected to encourage through the use of new inputs and technology in the recipient economy, in addition, FDI or even purely technical change in managements in the recipient developing countries (de Mello and Sinclair, 1995).

Trends in FDI Flows -Different country analysis

FDI inflows have increased in the first eight month of the current year reaching US \$ 2.5 billion, which is more than double, compared to the corresponding period last year and is very near to the total FDI inflows in 2003-04 (Table-1).

Table-1: Share of top investing countries in FDI inflows -1991 - 2004 (amount in rupees crores, millions of US \$)

Country	1991-00	2000-01	2001-02	2002-03	2003-04	2004-05	Total inflows	% of total inflows
Mauritius	13,272 (3,608)	4,111 (942)	10,063 (2,182)	3,766 (788)	2,609 (567)	3,730 (811)	37,551	34.49
USA	8,956 (2,450)	1,544 (356)	1,748 (382)	1,504 (319)	1,658 (360)	2,401 (522)	17,811 (4,389)	17.08
Japan	3,314 (898)	977 (224)	809 (178)	1,971 (412)	360 (78)	466 (101)	7,897 (1,891)	7.33
Netherlands	2,260 (628)	706 (162)	890 (196)	836 (176)	2,247 (489)	906 (197)	7,845 (1,847)	7.16
UK	2,286 (670)	303 (70)	1,673 (366)	1,617 (340)	769 (167)	361 (78)	7,009 (1,692)	6.56
Germany	2,396 (672)	540 (123)	519 (113)	684 (144)	373 (81)	553 (120)	5,066 (1,254)	4.86
France	1,002 (280)	455 (104)	499 (108)	534 (112)	176 (38)	165 (36)	2,822 (679)	2.63
South Korea	2,094 (572)	90 (21)	5 (1)	188 (39)	110 (24)	115 (25)	2,601 (682)	2.64
Singapore	1,244 (344)	502 (117)	251 (54)	180 (38)	172 (37)	225 (49)	2,573 (639)	2.48
Switzerland	948 (269)	71 (16)	180 (40)	437 (93)	207 (45)	287 (62)	2,130 (525)	2.04
TOTAL FDI INFLOWS*	60,604 (16,701)	12,645 (2,908)	19,361 (4,222)	14,932 (3,134)	12,117 (2,634)	11,726 (2,549)	1,31,385 (32,290)	-

Source: SIA, FDI Data Cell, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.

Country -wise, FDI inflows to India (table -1) are dominated by Mauritius (34.49 percent), followed by the United States (17.08 percent) and Japan (7.33 percent).

Empirical investigations have found that the positive impact of FDI is generally higher for recipient countries with a higher level of development (Blomstorm et al., 1994). Such findings support the arguments that in the absence of a minimum

threshold level of development, the positive impact of FDI would remain confined to particular FDI enclaves of the economy (Borensztein et al., 1995). The spillover effect of FDI is also found to be the highest in industries with high level of technical development and low concentration of foreign firms. Indigenous technology capabilities have been found to be positively associated with technology import, research and development in the recipient country, output growth and manufacturing exports (Zhao, 1995). Some studies have found that compared with firms under pure domestic ownership, FDI firms generally have higher capital intensity, exports to sales ratio and imported input component (O' Sullivan, 1993). There is, however, a tendency of technology imports to shift from physical capital –intensive to human capital-intensive type over time. The economic benefits of FDI are generally difficult to measure with precision. However, it may be noted that, a liberal policy towards FDI inflow is necessary, but not sufficient for reaping the benefits of globalization. Market failures may occur for attracting FDI flows.

Table- 2: Foreign direct investment in selected Asian developing countries

Country	Foreign Direct Investment Inflows		
	2001	2002	2003
China	46.88 (5.7)	52.74 (7.8)	53.51 (9.6)
Hong Kong	23.78 (2.9)	9.68 (1.4)	13.56 (2.4)
India	3.40 (0.4)	3.45 (0.5)	4.27 (0.8)
Indonesia	-2.98 -(0.4)	0.15 (0.0)	—
Korea	3.68 (0.5)	2.94 (0.4)	3.75 (0.7)
Malaysia	0.55 (0.1)	3.20 (0.5)	—
Philippines	0.98 (0.1)	1.79 (0.3)	0.32 (0.1)
Singapore	15.04 (1.8)	5.73 (0.8)	11.41 (2.0)
Sri Lanka	0.08 (0.0)	0.20 (0.0)	0.23 (0.0)
Thailand	3.81 (0.5)	1.07 (0.2)	1.80 (0.3)
Developing Economies	219.72 (26.9)	157.61 (23.2)	172.03 (30.7)
World	817	678.75	559.58

Source: SIA, FDI Data Cell, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.

Though there is no ideal strategy for the use of FDI as applicable to all countries at all times, a good strategy must be context specific, reflecting a country's level of economic development, the resource base, the specific technological context, the competitive setting, and the Government's capabilities to implement policies. For instance, countries like Malaysia, Singapore and Thailand pursued policies to rely substantially on FDI, while integrating the economy into Transnational Corporations (TNCs) production networks and promoting competitiveness by upgrading within those networks. On the other hand, countries like, China, Korea etc. has pursued policies to develop domestic enterprises and autonomous innovative capabilities, relying on TNCs mainly as sources of technology.

Most FDI has been directed towards the developed world, although the share of developing countries had been growing steadily until 1997, when it reached a peak of around 40%. The important characteristics feature of FDI flows to Emerging Market Economies (EMEs) in the 1990s were, Firstly, there was a rapid increase in FDI inflows in the 1990s, owing largely to the adoption of macroeconomic and structural reforms by a number of these countries and the strengthening of their growth prospects. Secondly, the surge in FDI, especially in the latter of the 1990s, was led by increased merger and acquisition activity. Thirdly, for a number of countries there was a significant shift of FDI into the service sector in tandem with the increasing share of services activities in these host countries. In fact, traditionally, FDI was directed towards the development of natural resources and manufacturing enterprises.

Most of the recent studies conclude that FDI is a relatively stable type of capital flow (Radelet and Sachs.1998). During the period 1992-97, commercial bank loans displayed the highest volatility, as measured by the coefficient of variation, followed by portfolio investment and FDI. Another study in respect of 12 major developing economies and countries in transition for the same period, based on annual data, confirmed that the volatility of foreign portfolio investment was generally higher than that of FDI (UNCTAD, 1998). Further, FDI flows continue to be concentrated in China, Hong Kong (China) and Singapore. The top 10 host economies took 93% of the regions total inflows in 2002. Further, FDI flows to North-East Asia 16 dropped from \$78 billion in 2001 to \$ 70 billion in 2002. FDI flows to Hong Kong (China) fell by 42%, to Taiwan Province of China by 65% and to the Republic of Korea by 44%, partly because TNC production activities were relocated to lower cost locations, primarily China. The decline in FDI flows was also partly due to slow economic growth of these economies. The notable exception was China, FDI flows to South-East Asia dropped from \$15 billion in 2001 to \$14 billion in 2002, through Brunei Darussalam, Lao People's Democratic Republic, Malaysia and the Philippines received larger flows than in 2001. Significant repayments of intra-company loans by foreign affiliates were a feature of the decline, as was the increased competition from China. FDI flows to South Asia increased from \$4.0 billion in 2001 to \$4.6 billion in 2002, due to higher flows to India, Pakistan and Sri Lanka. FDI flows to Bangladesh and other countries in the sub region declined. However, in the case of Bangladesh,

FDI flows in 2002 would have been higher if investment in kind were included. FDI flows to West Asia declined in 2002 to \$ 2.3 billion, from \$ 5.2 billion in 2001. Despite the recent efforts of some countries in this sub region to relax FDI restrictions, flows continue to be low, with geopolitical tensions being a major factor. Some countries have large oil reserves with after reaching a peak in 2000, global FDI inflows declined in the subsequent years. In 2002, a handful of countries like China, Brazil, Hong Kong, Mexico, Singapore, India and Malaysia accounted for around 70% of total FDI flowing into developing countries (Table.1). The source of FDI in East Asia has predominantly been the region within itself-Hong Kong and Taiwan together account for about 45% of FDI in the major recipient countries in the region including China. These two source are inseparable, since a significant amount of investment from Taiwan is channeled through Hong Kong and they together account for almost 70% of FDI in China. After the East Asian Newly Industrialized Economies (NIEs), Japan ranks as the second largest investor in the region-its investments are spread more or less equally between China, Malaysia and Thailand.

Foreign Direct Investment in China and India:

India and China received large FDI flows in the 1990s. FDI flows to China are, however, ten times of that in respect of India (Table.4). The timing, pacing and content of FDI liberalization and the overall development strategy in the two countries seem to account for the difference in FDI performance. In UNCTAD's FDI Performance Index, India ranked 122nd in FDI performance. China was placed much higher at the 54th position. A recent business environment survey indicated that China is more attractive than India in terms of the macroeconomic environment, market opportunities and policy orientation towards FDI. India, on the other hand, scored better on the political environment, taxes and financing (EIU, 2003).

Table-4: China and India: Selected FDI indicators

Item	Country	1990	2000	2001	2002
1.FDI Flows (US.\$ billion)	China	3.5	40.0	46.8	52.7
	India	0.1	4.0	6.1	4.7
2.Inward FDI Stock(US\$ billion)	China	24.8	348.3	395.2	447.9
	India	1.5	21.0	27.1	31.8
3. Growth of FDI Inflows (Annual %)	China	2.8	1.1	14.9	12.5
	India	-76.3	97.0@	52.2	-24.0
4. FDI Stock to GDP (%)	China	7.0	32.3	33.2	36.2
	India	0.5	4.5	5.6	6.2
5.FDI Flows to Gross Fixed Capital Formation (%)	China	3.5	10.3	10.5	
	India	0.1	3.9	5.8	N.A
6. FDI Flows per Capita (US \$)	China	3.0	32.0	36.5	40.7
	India	0.1	3.9	5.9	4.5

@: The large increase is due to change in definition.

Source: World Investment Report (UNCTAD) 2003, Reserve Bank of India (2004)

A Federation of Indian Chambers of Commerce and Industry (FICCI) survey suggests that China has a better FDI policy framework, market growth, consumer purchasing power, rate of return, labour law and tax regime than India (FICCI, 2003).

China and India--Reasons for difference in FDI performance

China's exceptional growth is partly explained by its markets - based reforms that started in 1978, well before India's similar reforms began in 1991. These reforms have enabled China to integrate with the global economy at phenomenal pace. Today it is the largest recipient of foreign direct investment among developing countries, with the annual investment rising from almost zero in 1978 to about \$ 52 billion in 2002. (Nearly 5% of GDP). Foreign direct investment in India has also increased significantly, though at much lower levels, growing from \$129 million in 1991 to \$ 4 billion in 2002 (Less than 1% of GDP).ed. On the way to the new economy, China is gradually becoming the world manufacturing center of IT equipment and products, while India has gained the leading position in software technology and has become the second largest software country in the world. Since mid-1990s, trading activities between the two countries greatly increased, economic cooperation, such as labor, technical cooperation and inter-investment had been widely developed. Both enjoy healthy rates of economic growth. But there are significant differences in their FDI performance. FDI flows to China grew from \$3.5 billion in 1990 to \$52.7 billion in 2002; if round-tripping is taken into account, China's FDI inflows could fall to, say, \$40 billion Those to India rose from \$ 0.4 billion to \$5.5 billion during the same time period. Even with these adjustments, China attracted seven times more FDI than India in 2002, 3.2% of its GDP compared with 1.1% for India. In UNCTAD's FDI Performance Index, China ranked 54th and India 122nd in 1999-2001. FDI has also contributed to the rapid growth of China's merchandise exports, at an annual rate of 155 between 1989 and 2001. In 1989 foreign affiliates accounted for less than 9% of total Chinese exports; by 2002 they provided half. In some high- tech industries in 2002 the share of foreign affiliates in total exports was as high as 91% in electronics circuits and 96% in mobile phones (WIPR-2002). About two-thirds of FDI flows to China in 2000-2001 went to manufacturing. In India, by contrast, FDI has been much less important in driving India's export growth, except in information technology. FDI in Indian manufacturing has been and remains domestic market seeking. FDI accounted for only 3% of India's exports in the early 1990s (WIPR, 2002). Even today, FDI is estimated to account for less than 10% of India's manufacturing exports. For China the lion's share of FDI inflows in 2000-2001 went to a broad range of manufacturing industries. For India most went to services, electronics and electrical equipment and engineering and computer industries.

The differential performance of India and China in attracting the FDI inflows has been the subject of attention at the international level (UNCTAD, 2003). Further, the difference in FDI inflows to India and China can be attributed partly to definitional and conceptual issues. For instance, a part of the difference in FDI inflow to India and China can be traced to data reporting. A sizable portion of the FDI in China is

investment made by the Chinese from foreign location-the so called “round tripping”- and this takes place to a large extent due to special treatment extended by the Chinese authorities towards foreign investors’ via-a-vis domestic investors. The round tripping is much smaller in India and takes place mainly through Mauritius for tax purposes. Estimates suggest that as 30 percent of the reported FDI in china may in fact be a result of round- tripping (UNCTAD, 2003).

Another major factor could be the earlier initiation of reform measures in China (1978) as compared to India (1991). Moreover, China’s manufacturing sector productivity is 1.6 times that of India and, in some sectors, as much as five times (Mc Kinsey, 2001). Flexible labour laws, a better labour climate and entry and exit procedures for business, business-oriented and more FDI –friendly policies also make China an attractive destination. Investors underscore the predictability and stability of the tax system as an important factor in determining investment decision. Higher Import duties on raw materials in India result in higher prices of inputs, as most domestic players resort to import parity pricing. China has a flat 17 per cent VAT rate, while India’s indirect taxes range from 25 per cent to 30 per cent of the retail price for most manufactured product. The emergence of China as a member of world Trade Organization (WTO) in 2001 is a stabilizing anchor and has led to substantial liberalization in the services sector (RBI 2004).It is also important to note that India and China focused on different strategies for industrial development. India encouraged FDI only in higher technology activities, whereas China favored export-oriented FDI concentrated in manufacturing sector. China’s strategy is based on the premise that an increasing proportion of international trade is inter-firm trade between multinational, and in such an environment there is no alternative to attracting FDI for export. China’s FDI –driven merchandise exports grew at an annual rate of 15 percent between 1969 and 2001. In 1989, foreign affiliates accounted for less than nine percent of total Chinese exports; by 2002 these accounted for half of the exports and in high-tech industries the proportion was much higher (World Investment Report, 2003). In contrast, in India, given its product reservation policy for Small Scale Industries (SSIs), FDI is not permitted in SSI reserved products such as garments and toys, which has adverse implications for export growth. In India, exports by FDI companies grew at an average of around 9% during 1990-91 to 2001-02. A major factor in the growth of Chinese exports was the relocation of labour intensive activities by TNCs to China. However, in India this has happened mainly in the services sector. Almost all major U.S and European information technology firms have presence in India now. Foreign companies dominate India’s call centre industry, with a 60% share of the annual US\$ 1.5 billion turnover (World Investment Report, 2003). Despite large FDI flows, restrictions on the organizational forms of FDI entry are still prevalent in China. For instance, in 31 industries the establishment of wholly foreign –owned enterprises is not allowed and the Chinese partners must hold majority share holdings or a dominant position in another 32 sectors (OECD, 2002). A view has been expressed that China’s large absorption of FDI is not necessarily a sign of the strength of its economy; instead, it may be a sign of some, rather substantial, distortions

(Huang, 2003). It is argued that FDI plays a major role in the Chinese economy due to systematic and pervasive discrimination against efficient and entrepreneurial domestic firms. Furthermore, unlike India, a vibrant private sector is absent in China and most of the foreign investors must perform tie up with only state owned behemoths for joint ventures.

Basic determinants of FDI flows

- a) National macroeconomic policies
- b) Principal economic determinants
- c) Business facilitation

National Macroeconomic policies

National macroeconomic policies are the key for attracting FDI in many recipient countries and these policies have to be seen in the boarder context of the determinants of FDI. Thus, the broad Policy framework for inviting FDI depends on, viz; the economic, political and social stability, rules regarding entry and operations, standard of treatment of foreign affiliates, policies on functioning and structure of markets (especially competition and M&A policies), international trade and investment agreements, privatization policy, trade policy (tariffs and non-tariff barriers) and coherence of FDI and trade policies, and tax policy.

Principal Economic determinants

On the other, the types of FDI classified principal economic determinants by motives of TNCs in host countries are outlined as under :(Box: 1)

Box-1: Principal Economic determinants

A. Market -seeking a. market size and per capita income b. market growth c. access to regional and global markets d. country-specific consumer preferences e. structure of markets	B. Resource/ asset -seeking a. raw materials b. low-cost unskilled labour c. skilled labour d. technological, innovatory and other created assets (e.g. brand names),including as embodied in individuals, firms and clusters e. physical infrastructure (ports, roads, power, telecommunication)	C. Efficiency-seeking a. cost of resources and assets listed under B, adjusted for productivity for labour resources b. other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products c. membership of a regional integration agreement conducive to the establishment of regional corporate networks
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Determinants-Business facilitation

The different incentives which encourage FDI flows into the recipient countries depends on; a) investment promotion (including image building and investment-generating activities and investment- facilitation services), b) investment incentives, c) hassle costs (related to corruption, administrative efficiency, etc.), d) social amenities (bilingual schools, quality of life, etc.) and e) after-investment services.

Basic determinants

On the basic economic determinants of inward FDI, China does better than India. China's total and per capita GDP are higher for, making it more attractive for market-seeking FDI. Its higher literacy and education rates suggest that its labour is more skilled, making it more attractive to efficiency-seeking investors. China also has large natural resource endowments. In addition, China's physical infrastructure is more competitive, particularly in the coastal areas. But in India may an advantage in technical manpower, particularly in information technology. It also has better English language skills.

Rapid growth in China has increased the local demand for consumer durables and non-durables, such as home appliances, electronics equipments, automobiles, housing and leisure. The rapid growth in local demand, as well as competitive business environment and infrastructure, has attracted many market-seeking investors. It also encouraged the growth of many local indigenous firms that support manufacturing.

Recently, it is observed that, China is more attractive than India in the macroeconomic environment, market opportunities and policy towards FDI. India scored better on the political environment, taxes and financing. A Federation of Indian Chambers of Commerce and Industry (FICCI 2003) survey suggests that China has a better FDI policy framework, market growth, consumer purchasing power, rate of return, labour laws and tax regime than India.

Both China and India are good candidates for the relocation of labour intensive activities by TNCs, a major factor in the growth of Chinese exports. In India, however, this has been primarily in services, notably information and communication technology. Indeed, almost all major United States and European information technology firms are in India, mostly in Bangalore. Companies such as American Express, British Airways, Conesco, Dell Computer and GE Capital have their back-office operation in India. Other companies such as Amazons Com and Citigroup outsource services to local or foreign companies already established in the country. Investor's sentiment on China as a location for investment is improving. Nearly 80% of all Fortune 500 companies are in China, while 37% of the Fortune 500 outsource of India (NASSCOM 2001). Despite the improvement, TNC investment interest remains lukewarm, with

some exceptions, such as in information and communication technology (AT Kearney 2001). Foreign companies dominate India's Call centre industry, with a view 60% share of the annual \$5billion turnover. Investor sentiment on China as a location investment is improving. Nearly 80% of all Fortune 500 companies are in China, while 37% of Fortune 500 outsource to India. Despite the improvements in India's Policy environment, TNC investment interest remains lukewarm, with some exceptions, such as in Information and Communication Technology (ITC).

The prospects for FDI flows to China and India are promising, assuming that both countries want to accord FDI a role in their development process- a sovereign decision. The large market size and potential, the skilled labour force and the low wage cost will remain key attractions. China will continue to be a magnet of FDI flows and India's biggest competitor. But, FDI flows to India are set to rise-helped by

a vibrant domestic enterprise sector and if policy reforms continue and the Government is committed to the objective of attracting FDI flows to the country.

The IMF definition of FDI includes as many as twelve different element-equity capital reinvested earning of foreign companies, inter-company debt transaction, short-term and long-term loans, financial leasing trade credits grants bonds, on-cash acquisition of equity, investment made by foreign venture capital investors, earning data of indirectly held FDI enterprises, control premium and non-competition fee. Until recently, Indian data on FDI did not include any other element other than equity capital reported on the basis of issue or transfer of equity or preference shares to foreign direct investor. China on the other hand, includes all these in its definition of FDI. China also classified imported equipment as FDI, whereas India includes these as imports in its trade data. After the incorporation of new items, FDI inflow into India during 2001-02 where revised upwards by US \$ 1.7 billion and US \$ 2.2 billion, respectively. However, even after adjusting for round tripping in china and considering the new FDI data for India at US \$ 6 billion, respectively, in 2001 continues to remain considerable. In this context, it is also important to point out that India receives large private transfers in the forms of remittance inflows from non-residents and also capital inflow in the form of NRI deposits. In recent times, gross workers' remittances to India per annum have been around US \$ 3 billion. Inflow to china from Chinese Diaspora, on the other hand, is recorded largely as FDI. Recent literature suggests that domestic market size is a major factor in including FDI inflow (IMF, 2003). At present, the Chinese economy is two and a half times that of the Indian economy while per capita income is twice as high. The growth induced local demand for durables and non-durables, competitive business environment, wage-adjusted productivity of labour, higher literacy, better infrastructure and education rates drive the efficiency seeking investors to China (UNCTAD, 2003). FDI in China is also driven by 'peer pressure' since many firms have followed their competitors into China to pressure their significant investment in mainland China , the overseas network and investment in India are much smaller (Bhalla, 2002).

Some of the differences in competitive advantages of the two countries are illustrated by the composition of their inward FDI flows. In information and communication technology, China has become a key center for hardware design and manufacturing by such companies as Acer, Ericsson, and General Electric,-Hitachi Semiconductors, Microsoft, Mitac International Corporation, Motorola, NEC, Nokia, Philips, Samsung Electronics, Sony, Taiwan Semiconductor Manufacturing, Toshiba and other major electronics TNCs . India specializes in IT services; call centers, business back-office operations and R&D.

Rapid growth in China has increased the local demand for consumer durables and nondurable, such as home appliances, electronics equipment, automobiles, housing and leisure. This rapid growth in local demand, as well as competitive business environment and infrastructure, has attracted many market-seeking investors. It has also encouraged the growth of many local indigenous firms that support manufacturing. Other determinants related to FDI attitudes, policies and procedures

also explain why China does better in attracting FDI. China has “more business-oriented” and more FDI –friendly policies than India (AT Kearney 2001). China’s FDI procedures are easier, and decisions can be taken rapidly.

China has more flexible labour laws, a better labour climate and better entry and exit procedures for business (CUTS 2003). A present business environment survey indicated that China is more attractive than India in the macroeconomic environment, market opportunities and policy towards FDI. India scored better on the political environment, taxes and financing (EIU2003a). In India the Government has planned to open some more industries for FDI and further relax the foreign equity ownership ceiling (EIU 2003a). To identify approaches to increase FDI flows, the Planning Commission established a steering committee on FDI in August 2001. Following the Chinese model, India recently took steps to establish special economic zones. China’s special economic zones have been more successful than Indian export processing zones in promoting trade and attracting FDI (Bhalla 2002).

Overseas Networks

In addition to economic and policy-related factors, an important explanation for China’s larger FDI flows lies in its position as the destination of choice for FDI by Chinese business and individuals overseas, especially in Asia. The role of Chinese business networks abroad and their significant investment in mainland China contrasts with the much smaller Indian overseas networks and investment in India. This is because the Overseas Chinese are more in numbers, tend to more entrepreneurial, enjoy family connections in China and have the interest and financial capability to invest in China- and they do, they receive red-carpet treatment. Overseas Indians are fewer, more of a professional group and, unlike the Chinese, often lack the family network connections and financial resources to invest in India.

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The prospects for FDI flows to China and India are promising, assuming that both countries want to accord FDI a role in their development process- a sovereign decision. The large market size and potential, the skilled labour force and the low wage cost will remain key attractions. China will continue to be a magnet of FDI flows and India's biggest competitor. But, FDI flows to India are set to rise-helped by a vibrant domestic enterprise sector and if policy reforms continue and the Government is committed to the objective of attracting FDI flows to the country.

Challenges and Policy requirements for the investment climate improvements

The Government's role in shaping the investment climate is traditionally explained by market failures or the failures of laissez-faire conditions to achieve efficient social outcomes. Failure to create sound investment climate is not merely due to lack of money but, many investment climate improvements place few demands on Government budgets and the growth unleashed by reforms contributes to grater tax revenues. The challenges like, restraining rent seeking, establishing credibility, fostering public trust and legitimacy and ensuring policy responses reflect a good institutional fit etc. are the challenges cut across all areas of investment climate policy making from contract enforcement and business regulation to infrastructure provision and labor markets and directly impact on the costs, risks and barriers to competition faced by firms. Stable macroeconomic policy, secure property rights, reliable infrastructure and efficient financial markets benefit firms and society. However, creating a favorable investment climate begin with understanding the perspectives and the preferences of firms. In contrast, Government policies need to balance the preferences of firms with broader social objectives.

Policies are decisive in preventing FDI from entering a country. The best way of attracting and drawing benefits from FDI is not always passive liberalization (an "open door" policy). Liberalization can help to get more FDI, but alone it is not enough. Attracting FDI in a highly competitive market for investment now requires stronger locational advantages and more focused efforts at promotion. Getting FDI in technologically advanced or export-oriented activities is even more demanding.

Having attracted foreign investors into a country, policies are crucial to ensure that FDI brings more benefits. The economic attractiveness of a country for FDI depends primarily on its advantages as a location for investors of various types. FDI policies can induce faster upgrading of technologies and skills, raise local procurement, secure more reinvestment of profits, and protect the environment and consumers and so on. They can also help counter the potential dangers of FDI-say, by containing anticompetitive practices and preventing foreign affiliates from crowding out viable local firms or acting in ways that upset local sensitivities.

Market seeking investors look for large and growing markets. Resource-seeking ones look for ample natural resources. And efficiency-seeking ones look for a competitive and efficient base for export production. More general factors affect all

prospective host economies, political stability, a sound macro economic frame work, welcoming attitudes to foreign investment, adequate skills, low business transaction costs, good infrastructure and the like. Free markets do not always ensure efficient and equitable outcomes, particularly in developing countries with weak markets and institutions; hence, the need for policy intervention. The ground work for making markets wok well - sound legal systems, clear and enforceable rules of the game, responsive market institutions, a vibrant domestic enterprise sector and the like - has to be laid down by the host country government. But even then, the strategic objectives of TNCs may not match the development goals of host governments. Policies need to bring them more in line with those goals.

The most important challenge for developing countries in future about International Investment Agreements (IIAs) is to increase FDI flows and the ability of countries to pursue development –oriented FDI policies –as an expression of their right to regulate in the public interests. This requires maintaining sufficient policy space to give governments the flexibility to use such policies within the framework of the obligations established by the IIAs to they are parties. The tension this creates is obvious. Too much policy space impairs the value of international obligations. Too stringent obligations overly constrain the national policy space. Funding a development –oriented balance is the challenge. When negotiating IIAs, the objectives of IIAs, their structure, content and implementation is addressed. Their content is central as the quest for a development friendly balance plays itself out in the resolution of issues that are particularly important for the ability of countries to pursue development –oriented national FDI policies and that are particularly sensitive in international investment negotiations, because countries have diverging views about them in light of their own predominating objectives.

From a development perspective, the most important issues are: the definition of “investment”, because it determines the scope and reach of the substantive provisions of an agreement; the scope of national treatment (especially as it relates to the right of establishment), because it determines how much and in which ways preference can be given to domestic enterprises; the circumstances under which government policies should be regarded as regulatory takings, because this involves testing the boundary line between the legitimate right to regulate and the rights of private property owners; the scope of dispute settlement, because this raises the question of involvement of non-State actors and the extent to which the settlement of investment disputes is self-contained and the use performance requirements, incentives, transfer-of- technology policies and competition policy, because they can advance development objectives. For each of the issues, more development friendly and less development friendly solutions exists. From the perspective of many developing countries, the preferable approach is therefore a broad GATS-type positive list approach that allows each country to determine for itself for which of these issues to commit itself to in II As, under what conditions, and at what pace, commensurate with its individual needs and circumstances. In pursuit of an overall balance, furthermore, future IIAs needs to pay more attention to commitments by home countries. In fact, all developed countries

(the main home countries), out of their own self-interest, already have various measures to encourage FDI flows to developing countries, in place. And a number of bilateral and regional agreements contain commitments. Developing countries would benefit from making home country measures more transparent, stable and predictable in future IIAs.

Transnational Corporations (TNCs) too can contribute more to advancing the development impact of their investment in developing countries, as part of good corporate citizenship responsibilities, whether through voluntary action or more legally based processes. Areas particularly important from a development perspective are contributing fully to public revenues of host countries; creating and upgrading linkages with local enterprises; creating employment opportunities; raising local skill levels; and transferring technology. These issues are all complex. Because the potential implications of some provisions in IIAs are not fully known, it is not easy for individual countries to make the right choices. The complexities and sensitivities are illustrated by the experience of NAFTA for the regional level; that of the IIA negotiations for the interregional level and that of the GATS and the TRIMs Agreement for the multilateral level. Given the evolving nature of IIAs, other complexities tend to arise in applying and interpreting agreements. Indeed, disputes may arise from these processes, and their outcome is often hard to predict. That is why Governments need to ensure that such difficulties are kept to a minimum. How? By including appropriate safeguards at the outset to clarify the range of special and differential rights and qualifications of obligations that developing country parties might enjoy. Moreover, the administrative burden arising from new commitments at the international level is likely to weigh disproportionately on developing countries especially the least developed, because they often lack the human and financial resources needed to implement agreements. This underlines the importance of capacity – building technical cooperation to help developing countries assess better various policy options before entering new agreements and in implementing the commitments made.

The overriding challenge for countries is to find a development – oriented balance when negotiating the objectives, content, structure, and implementation of future IIAs at whatever level and in whatever context. The development dimension has to be an integral part of international investment agreements-in support of national policies to attract more FDI and to benefit more from it. Most developing countries consider FDI as an important channel for accessing resources for economic development. FDI represents transfer of a bundle of assets like capital, technology, access to exports markets, skills and management techniques and modern environmental management systems.

Investment improvement -China and India's way

Growth in China is officially reported at an average of 8 percent a year for the last 20 years-giving it the most impressive (if disputed) sustained growth performance in history. Declines in poverty have been equally dramatic-from 60 percent of the population to 17 percent. Yet China only recently gave constitutional protection to

private property rights, inefficient state-owned enterprises still clutter the landscape, and the financial sector is dragged down with nonperforming loans. How was such sustained growth possible?

Growth was ignited by introducing rudimentary system of property rights that gave farmers and township and village enterprises incentives to take risks and invest. The response was magnified by the large size of the economy affected. No less important, the reforms were interpreted by individuals and emerging enterprises as a decisive shift in government policy favoring private initiative, reinforced by a high level of policy stability, strengthening the confidence to invest. The initial signal was confirmed by subsequent reforms that improved the environment for private business. These included efforts to attract FDI, improvements to the World Trade Organization (WTO), and efforts to tackle corruption and improve transparency.

The Bank's Investment Climate Surveys shows that China has created an investment climate in its main industrial centers that would be the envy of many developing countries-and it is not just about wages or exchange rates. The surveys show that in five of the main industrial centers, the costs of infrastructure disruptions, crime, bribes, regulation, and contract enforcement difficulties average less than 14 percent of sales. This is well below the average in countries such as Brazil and Pakistan, and half the average in Tanzania. China still has a long way to go-especially in extending similar improvements across the country-but its strong performance is less of a riddle when viewed in this light. Subsequent improvements -including those attracting foreign direct investment (FDI) and improving business regulation and infrastructure addressed constraints initially less binding. A degree of autonomy between provinces has also fostered experimentation and created incentives for lagging provinces to emulate the success of their faster moving counterparts.

India's experience highlights the same basic point. Its current period of growth began with some trade, tax, and regulatory reforms in the 1980s. Firms responded because the reforms addressed important constraints and because they were seen as signaling a decisive policy shift toward private sector -led growth. Subsequent reforms, including the dismantling of "licensing Raj" and further trade liberalization in 1991, did more to reduce costs and increased competitive pressure in the economy.

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FDI policies for sustainable growth of China and India: Emerging issues

If FDI is to be utilized for sustaining growth process of a country, it is essential to create local technological capabilities. Skill development, industrial specialization,

enterprise learning and industrial restructuring lead to improvement in productivity and help industries to cope with technical change. In order to create such processes within an economy, the Government may need to formulate a strategic FDI policy. A strategic FDI policy entails Govt. intervention in factor markets in order to develop local skills and to target FDI in areas where the country has dynamic comparative advantage (UNCTAD, 2003). The policy of the Govt. should be aimed at reducing macro level ineffectiveness and improving micro level conditions. The Govt. should be an effective regulator, being neutral to domestic and foreign capital. However, Government intervention aimed at affecting FDI flows is at best ineffective and could be counterproductive. It is observed that direct foreign investors were not included by incentives such as tax concessions or strengthening the economic fundamentals of the host economy included FDI inflows. It has also been argued that industrial policies that seek to direct foreign investment flows towards certain sectors only distort the normal functioning of the market. While such measures do not include FDI, these can have serious negative implications in the form of reduced competition and creation of excess capacity in certain sectors (Mc Kinsey Global Institute, 2003). Further, the motivation and determinants of FDI differ among countries and across economic sectors. These factors include (a) the policy framework such as, international trade and investment agreements, trade policy (tariff and non tariff barriers) and coherence of FDI policies etc. (b) the extent of business facilitation and other economic determinants such as macroeconomic fundamentals like; market size and per capita income, access to regional and global markets etc. and availability of infrastructure like; raw materials, low-cost unskilled labor, skilled labor , technological, innovative and other creative assets, (i e. brand names) including as embodied in individuals firms and clusters, physical infrastructure (ports, roads, power, telecommunication) , and (c) business facilitation such as; investment promotion (including image-building and investment-generating activities and investment facilitation services), investment incentives, hassle costs (corruption, administrative efficiency, etc.), social amenities (bilingual schools, quality of life, etc.), alternate investment services.

Liberalization of norms relating to FDI and adoption of a policy stance supportive of globalization do not by themselves ensure that the economy would attain a high growth path. On the contrary, such policies could, in fact, be inimical to the long term development process of the country in the absence of 'safeguards'. Government policies and behaviors shaping the investment climate play out over a broad domain, from contract enforcement, business regulation, and taxation -to finance electricity supply, and labor markets. The government policies and behaviors that influence the costs, risks, and barriers to competition dominate as part of that package. This has to be considered more relevant due to the reasons like;

First, the impact of any policy improvement will depend on how it addresses a constraint that it actually binding on firms. So expanding access to credit will not have much impact on firms' investment decisions-an effort sometimes described as "pushing on a string" - until more fundamental concerns about the security of their property rights have been addressed. Providing tax breaks may not be enough to

compensate for other weaknesses in the investment climate in some situations-but may be unnecessary in others. Similarly, introducing a competition law may not have a big impact on the economy when the main barriers to competition stem from trade restrictions, government monopolies or other regulatory barriers to entry and exit.

Second, different areas of the investment climate policy can interact. Clarifying rights to land can help ease access to credit by firms and households-but only when complementary aspects of financial infrastructure are in place. Reducing barriers to trade will not deliver its full potential if weak bankruptcy laws slow the exit of less efficient firms, or if labor market policies limit the ability of firms to adjust production processes to respond to a more competitive environment. Similarly, efforts to encourage local R&D can be hobbled by shortages of skilled workers, limited completion, or weak intellectual property rights.

So investment climate improvements involve more than one-off, “stroke-of-the - pen” reforms. But this does not mean that simultaneously and comprehensive reform is necessary for significant results. Indeed, efforts to tackle the full set of investment climate policies simultaneously, even if technically feasible, could generate so much uncertainty for firms that it might deter rather than encourage investment, at least temporarily. Deep and rapid institutional change can also be disruptive for society, possibly undermining public support and thus the sustainability of reform. So some sequencing of reforms is inevitable in a field as broad as the investment climate. Fortunately, experience shows that countries can reap significant benefits by addressing important constraints to invest-and sustaining a process to address other constraints as they become more binding.

Take China, the country enjoying the world’s fastest growth and poverty reduction in recent years. The reform that ignited growth was the introduction of a rudimentary system of [property rights, initially for ownership and village enterprises and then for individual farmers and entrepreneurs. Once official targets were met, additional production could be sold for personal gain. The improvements unleashed a strong response because of the size of the economy benefiting from the change, and because the changes were implemented in ways that gave people the confidence to invest. Confronting the underlying challenges in investment climate requirements

The Government’s role in shaping the investment climate is traditionally explained by market failures or the failure of *laissez-faire* conditions to achieve efficient social outcomes. Failure to create a sound investment climate is not merely due to lack of money; many investment climate improvements place few demands on government budgets and the growth unleashed by reforms contributes to greater tax revenues.

Ensuring policy responses reflect a good institutional fit. These challenges cut across all areas of investment climate policy making, from contract enforcement and business regulations to infrastructure provision and labor markets, and directly impact on the costs, risks and barriers to competition faced by firms.

Stable macroeconomic policy, secure property rights, reliable infrastructure and efficient financial markets benefit firm and society. However, creating a favorable investment climate begin with understanding the perspectives and preferences of

firms. In contrast, government policies need to balance the preferences of firms with broader social objectives. Interestingly there is always trade-off between the preferences of firms and other social goals even in matters of regulation taxation. Thus, managing the tension that can arise between firm preferences and broader social interests give rise to four practical challenges for investment climate improvements:

- 1) Restraining the rent -seeking
- 2) Establishing credibility
- 3) Fostering public trust and legitimacy
- 4) Ensuring that policy responses reflect a good institutional fit

Government can draw on a variety of mechanisms and strategies to enhance their credibility. The main formal mechanisms involve constitutions, institutions, contracts, and international agreements like: establishing effective veto points on decision-making and providing other guarantees through national constitutions. This can include formal checks and balances among different branches of government, autonomous sub national governments, and constitutional prohibitions on the expropriation of property, coupled with independent judiciaries able to enforce those rules. Political constraints are associated with lower perceptions of investment risk, entrusting discretion on sensitive subjects to more autonomous agencies. Examples include independent central banks and specialist regulatory agencies for infrastructure-areas where the temptation to renege on commitments is particularly acute and providing specific contractual commitments on particularly sensitive matters. While clearly not feasible for all firms or topics, this is a common strategy for major natural resource and infrastructure projects, and increasingly common on matters of taxation for a broader range of activities. The credibility of contractual commitments can be further enhanced by making them subject to international arbitration.

Decentralization and investment climate

Decentralization has been a theme in constitutional design since at least the foundation of the Swiss Confederation in 1291, and remains a major theme to this day. How does decentralization affect the investment climate? Decentralization can contribute to a sound investment climate in several ways. Decentralization of regulatory responsibilities can help locales adapt approaches to their conditions and preferences and facilitate the involvement of stakeholders. Fiscal decentralization can assure local authorities that taxes raised locally will not be appropriated by the central government, giving local authorities incentives to develop their local tax base. Decentralization also permits a degree of institutional competition between centers of authority that can stimulate policy innovation and reduce the risk that governments will expropriate wealth.

But there are tradeoffs. Sub national authorities are not well placed to deal with issues that involve spillovers between jurisdictions. They may also face more severe capacity constraints and be unable to exploit economies of scale associated with particular functions. And sub national governments are not immune from governance problems-and in some contexts may be more valuable to them than national authorities. Reflecting these tradeoffs, the optimal location of particular policy and

administrative responsibilities will depend on the country and policy issue concerned. Small countries present fewer opportunities for decentralization than larger ones. But even in large countries, some matters will be best handled centrally, some sub nationally, and others may require some form of shared responsibility. A clear delineation of responsibility between tiers of governments reduces uncertainty and risk for firms and improves accountability

E-government and the investment climate

Advances in information technology, including the Internet, are paving the way for investment climate improvements that reduce demands on public administration, enhance transparency, and ease compliance burdens on firms. Approaches to business regulation in Singapore and land titling in India's Karnataka state illustrate the potential.

The e-government initiative launched by Singapore in 2000 included business registration and licensing procedures. It provides an online application system for business registration and licensing and a one-stop online application system for certain special licenses (for example, building and construction permits) that previously required separate submissions to as many as 12 regulatory authorities. The integrated approach reduced the cost of incorporating a new company from anywhere between S \$ 1, 200 and S \$ 35,000 (around \$ 700 to \$ 20,000) (depending on the capital of the company) to a flat fee of S \$ 300 (\$ 175). What used to require two days now requires less than two hours. Streaming the submission process for construction permits saves applicants more than S \$ 450 (\$ 260).

India's Karnataka state introduced an electronic land-titling system, Bhoomi, in the late 1990s. The online system is delivered through kiosks provide copies of a Record of Rights, Tenancy, and Crops (RTC). Obtaining an RTC once required up to 30 days, and typically a bribe of as much as Rs. 2,000 (about % 43). Land records could be deliberately "blurred" for fees of Rs. 10,000 (\$ 220). These records were not open to the public, and it sometimes took two years for the records to be updated under manual accounting system maintained by 9,000 "village" accounts-state employees responsible for three to four villages each. Today an RTC can be obtained for a fixed fee of Rs. 15 (\$0.32) in 5 to 30 minutes. The records are open for public scrutiny. Citizens can now request that land titles be updated quickly through the kiosks, a process that has increased the number of annual application for updates by 50 percent.

Macroeconomic stability and the investment climate

A sound investment climate requires sufficient macroeconomic stability before microeconomic policies will gain much traction. Low inflation, sustainable budget deficits, and realistic exchange rates are all key. Instability deters investment by making future rewards more uncertain and it can also undermine the value of assets. The effects of high inflation and volatile real exchange rates are particularly harmful for those with fixed incomes, local currency-denominated assets, and few means of protecting themselves from declining purchasing power. They also waken the position of creditors, making access to credit more difficult. Large firms are more likely to have tools at their disposal to cope with these risks, including better access to dollar

accounts, financial instruments, and credit from overseas. Medium and small firms are likely to be hardest hit. Hence, achieving stable macroeconomic policy was the focus of much policy attention, in the wake of the oil crisis of the 1970s and the debt and related financial crisis of the 1980s. The crisis in East Asia and Russia in the late 1990s, while sharp and painful, have been followed by recovery-with countries with more flexible microeconomic conditions and better investment climates recovering faster.

Regulating and taxing at the border

In addition to regulating and taxing firms within their borders, governments regulate and tax goods at the border and impose additional regulations and restrictions on foreign-owned firms. Although the regulation of domestic transactions can often be justified on efficiency grounds, such as addressing a market failure, similar arguments rarely apply to restrictions on trade or FDI. A part from revenue goals for import tariffs, policies in this area is often driven by the preferences of local firms to face less competitive pressure. A growing appreciation of the benefits of openness has resulted in both developed and developing countries significantly reducing barriers to trade and investment in recent years. However, many barriers that weaken the investment climate remain.

Conclusion

There has been significant liberalization of FDI policies over the past decade. Still, FDI is only a complement to domestic investment and even when inflows rose, the development benefits of FDI often below expectations of recipient domestic country. In essence, the actual impact of capital flows on economic growth is undoubtedly an empirical issue and varies widely across countries. An increase in capital flows is expected to augment domestic saving/ investment, boost aggregate demand and lead to an increase in aggregate output/income. At the same time, capital flows induced appreciation of exchange rate could adversely affect exports and increase imports thereby dampening the impact on aggregate demand and lead to deterioration in the current account. The policy response to the loss of external competitiveness may entail a softer interest rate environment to prevent appreciation of the exchange rate and to strengthen growth prospects.

Notwithstanding their potentially favorable impact on growth prospects, highly volatile nature of capital flows, especially portfolio flows and short-term debt, underscores the need for efficient management of these flows. While managing capital flows, clear distribution should be made between debts and non – debt creating flows, private and official flows and short –term and long –term capital flows. An overbearing objective of external sector policies of developing countries has been to devise strategies so as to maximize the benefits of capital inflows while limiting their adverse impact. At an individual country level, an appropriate response would be to build a resilient and robust financial sector which could appropriately intermediate large capital flows. It is imperative that such capital flows are absorbed smoothly in real sector embodying growth impulses. Adoption of proper macro economic policies,

particularly in respect of exchange rate management and monetary stance also assumes significance in dealing with large capital flows.

The experience of the Asian crisis revealed that large and volatile capital flows influenced the exchange rates and interest rates, leading thereby, to overshooting of exchange rates in some cases as expectations and reactions to news drove capital flows and exchange rates often out of alignment with fundamentals. Policy makers in developing countries, therefore, have to manage their capital accounts to ensure an orderly process of liberalization. The success of policy would lie essentially in managing the flows to reduce their volatility and limit their negative impact while reaping the benefits of such flows to enhance growth prospects of the economy.

Since 1995 at least 60 countries have made regulatory changes effecting foreign investment every year, with the vast majority reducing restrictions. Restrictions that discriminate against foreign investors usually have one of three objectives.

First are those that seek to encourage FDI but also to promote spillovers to the local economy by imposing requirements to enter joint ventures with local firms or to meet other requirements. Experience with the effectiveness of such arrangements is mixed at best.

Second are those that seek to exclude or otherwise more tightly control foreign participation in sectors perceived to be especially “sensitive”- such as infrastructure and media services. For example, the United States restricts foreign ownership of radio licenses and prevents majority foreign owned companies from operating domestic air services. Although many middle income countries maintain few restrictions on foreign ownership in electricity, telecommunications, transportations, and financial services given the benefits of foreign ownership in improving productivity, and the fact that many domestic firms rely on the services from the restricted sectors, restrictions can weaken the investment climate.

A third objective may be to control the potentially destabilizing effects of large short-term capital flows-with the emphasis on short -term portfolio investment rather than FDI.

To conclude, the need for a strategic FDI policy depends on several issues, because, once an enabling framework has been established, economic factors-the main determinants of FDI flows-assert themselves the extent of capital flows. On the contrary, host countries may not have the size of markets, growth rates, capabilities or infrastructure that would make investment in productive capacity attractive-either for the domestic market or as export base. Foreign investors may not have been well informed of the opportunities available-perhaps because host countries did not promote themselves effectively in an intensely competitive world market for FDI or were ambiguous about how much FDI they really wanted and on what terms.

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TOURISM DEVELOPMENT IN INDIA – CHALLENGES IN THE NEW MILLENNIUM

By Jayasheela^{*}, V.Basil Hans^{**} and R.R.Biradar^{***}

Travel in the young sort is a part of education, and in the elder, a part of experience
(Francis Bacon).

Introduction:

Tourism from being regarded as a pastime activity for the leisured few in society has grown into a multi-billion industry and a multi faceted activity. Worthily on account of its phenomenal socio-economic magnitudes and prospects tourism has also become the subject of scholarly interest. Hence our present research in the area of tourism in general and Indian tourism, in particular. The objective of the present paper is to understand the prospects of tourism industry in India in the era of liberalisation, privatisation and globalisation (LPG). Indian tourism industry today is on the threshold of a big change for large economic gains. However, tourism is much more than an economic activity; it has become a way of life. Without ignoring the problems of tourism industry and its implications on the future development of tourism industry in India, we make an attempt to identify the potentials of tourism industry in the present liberal environment. The paper analyses the key changes and challenges in the path of revolutionising the tourism industry in the new millennium. By making use of appropriate secondary data, the authors try to understand the interactivity between tourism enterprise and its stakeholders, including consumers. The quest for alternative tourism or newer forms of tourism like health tourism, rural tourism¹ and e-tourism is also examined, albeit briefly. The essentiality of promoting sustainable tourism is underscored.

World Tourism – A Panorama

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¹ The recent announcements by the Government of India indicate that special efforts would be initiated to harness the full potential of rural tourism.

Tourism is being recognised as a prime industry in most parts of the world today, largely for the purpose of earning maximum foreign exchange. Once popular for its social significance, today it is acquiring global significance too in the LPG era. Globally tourism has transformed considerably from its earlier motivation, i.e., religion and business to being a part of one's life style, even within the reach of classes other than aristocracy.

Basically tourism involves travelling for a fairly long distance with a specific purpose other than for changing one's permanent residence. People – young, old, men, women, rich and poor have been touring various places at different times for various reasons, since the dawn of civilisation. Global trotting for knowledge (travel for discovery of truth), pleasure trips, recreational roundups are part and parcel of human journey in life. Conventionally based on the purpose for touring by the tourists, tourism is divided into six types:

1. Recreational Tourism
2. Cultural Tourism²
3. Historical Tourism
4. Ethnic Tourism
5. Environmental Tourism
6. Adventure Tourism

With these distinct types of tourism what becomes the need of the hour is 'sustainable tourism'. Tourism becomes sustainable if it becomes on a part of a balanced economy, taking care of the long term needs of environment, people and their economic activities in a sensible manner. Experts on economics of tourism feel that tourism flourishes best when it fits into the context of general economic policies and programmes designed to lead to the optimum growth of the economy of a country as a whole. Hence the need to discuss and research upon the various facets of tourism and the emerging trends and challenges. Apart from the foreign exchange earning potential of this sector it is necessary to carefully examine and plan for its development according to its scope, human adaptations and aspirations, accessibility and affordability, and regional ramifications.

The status of tourism as a major economic activity is recognised as an expenditure by international visitors amounting to 152.5 billion US dollars in the year 2005. The total number of international visitors involved in the year 2004 was estimated to be about 760 million. Tourism has major economic significance for both developed as well as developing countries. The receipts from international tourism provide a valuable source of earnings. According to the World Tourism Organization

² The first appearance of tourism in the world had a cultural motivation. From a sheer admiration of beauty outside of ourselves and our homes to an urge to know the secrets of such beauty and joy, tourism has grown as a knowledge activity and is even now a way of experiential learning inspite of other motives.

(WTO), among the world's top 40 tourism earners in 2005 about 18 were developing countries including India. Regarding the number of visitor arrivals, in some countries there were more visitor arrivals than the domestic population.

Tourism is essentially a service industry. Hence it is a highly labour intensive activity that requires personnel at every level. The World Travel and Tourism Council (WTTC) estimated that in the year 2005, travel and tourism would generate almost 221 million jobs across the world economy, both direct and indirect. Approximately, one-third of these jobs were to be directly from the industry itself while remainder is from its very strong catalytic flow through effect in other sectors such as retail and construction. WTTC further expected that over 8.3% of all jobs worldwide will depend on travel and tourism in 2005 and that the industry will support the creation of over 269 million jobs by 2015. Looking forward, in the decade 2010, employment in travel and tourism is expected to grow at 2.6 per cent per annum. The world at present has 1/12th of its work force gainfully employed in tourism sector. Thus, tourism contributes significantly towards, foreign exchange reserves, creates income and employment opportunities. From the economic point of view, therefore, tourism is a high potential activity, with 'highs' and 'lows' of economic activity. Therefore, in the economics of tourism one has to study its market elements, investment climate, inflationary pressures, recessionary trends, boom prospects, trade winds, besides optimisation of individual (tourist) preferences. In the hardcore business of tourism, one has to make a cost-benefit analysis too.

Apart from economic and environmental changes, tourism also brings social and cultural changes. Tourism has immense cultural values. While religious and pilgrimage tourism is a distinct type of tourism, and destinations of devotion are in thousands, even a casual tourist does come across milestones of mingling cultures and effervescent unity. They come, they see and they conquer. Guests and visitors often get not only a view of space and species of a host country, but also a unique opportunity to build bridges of human relationship transcending all barriers. Tourism is a great leveller. It strengthens national unity and promotes international understanding by intensifying socio-cultural exchanges among people from different regions, even the most remote and /or backward ones.

The \$6201 billion global industry with total international arrivals of 760 million tourists offers immense opportunities for every country to share the benefits thereof. Global trends shows that the tourism sector would witness a boom over the next 10 years during which the sector is expected to create 20.94 million jobs in Asia Pacific region. However, as mentioned earlier, apart from the financial gains one has to gauge the social, cultural and environmental repercussions of these trends. For a developing country like India with its vast geographical area and population the boom will have far reaching consequences, economic as well as non-economic³.

³ In the future, the global tourism industry is likely to be affected largely by non economic factors like geopolitics, technology, and environment. With new streams emerging in tourism the existing strategies

Tourism in India

The tourism sector in India - like in most oriental countries – contributes substantially to foreign exchange reserves, creates income and employment opportunities even in the remotest areas, strengthens national integrity, and promotes international understanding and bonding by intensifying exchanges among people from different countries. Tourism is the second largest gross foreign exchange earner. In certain parts of India, tourism is the only income generating industry, for instance, Kashmir, Himachal Pradesh and Goa. Tourism has transformed several impoverished and backward villages into a thriving tourist centres.

WTO has reckoned India as the most favoured destination among the countries of South Asian region receiving more than 50 % of the total foreign tourist traffic in the area. WTCC says that India has the potential to become the number one tourist destination in the world with the demand growing at 10.1% per annum.⁴ India has always beckoned visitors from all over the world to experience its 5000 years old civilization. Its diversity of culture, faiths, languages, fairs and festivals, majestic monuments and captivating wildlife make for a variety which can take in almost the whole world. All these provide a unique set of opportunities for tourists to enjoy, again and again.

Tourism development in India has passed through many phases. India, a late starter in tourism did not realise its economic significance until Dr.Karan Singh who took over the charge as Minister of Tourism and Civil Aviation at the Centre. Subsequently tourism was given the status of an ‘export industry’ by the ministry of tourism and the planning committee. That means that tourism related activities can claim incentives and concessions which are given to other export oriented industries. Then onwards investment on tourism development was stepped up and relevant plans were drawn. The Planning Commission recognised tourism as an industry by June 1982. The National Committee on Tourism was set up in July 1986. It made significant recommendations like a separate cadre of Indian Tourism Service and partial privatization of Air India and Indian Airlines. The Tourism Development finance Corporation was set up in 1987 and the National Action Plan for Tourism was

for tourism development will have to be reengineered while new strategies need to be devised to harmonize the economic and non-economic goals. This is so because the industry’s global ‘competitiveness’ has to be strengthened in a ‘co-operative’ way. See Anwar and John, ‘Tourism into the Future’ in *Tourism Recreation Research* Vol. 30 (1) 2005 for an explanation of a range of issues that are likely to impact and guide the future of this industry.

⁴ This prediction is based on Tourism Satellite Accounting Research (TSAR), which measured tourism’s share in national economy in 160 countries over the last 10 years and found a global shift away from Europe to Asia and the Far East during the period.

published in May 1982. It envisaged, among other things, the development of Special Tourism Areas on lines of export processing zones in the country. The first-ever tourism day was celebrated on January 25, 1998. The year 1991 was declared as 'Visit India Year'. By 1993, the tourism sector came to enjoy more favourable treatment by the government and a high profile among industries. In 1998 tourism was granted 'Export House' status. The year 1999 was celebrated as Explore India Millennium Year. Various relevant events have followed subsequently. In 2003-04 a new scheme of Assistance for Large revenue Generating Projects was started. With hospitality sector assuming high priority, there is also a good growth in courses related to this field. At present the Ministry of Tourism is running 21 Hotel Management Institutes and 14 Food Craft Institutes Besides the government, agencies like Indian Association of Tour Operators (IATO), travel Agents Association of India (TAAI), and Indian Hotels and Restaurants Association (IHRA) also became forces to reckon with. Graduate and Post-Graduate degrees/diploma as well as Certificate courses in travel and tourism, hotel management, catering management, hospitality science, dietetics, food & beverage service, hotel administration, fast food operations, cookery, restaurant & counter service, reception & book keeping, house keeping and bakery & confectionery are some of the fast catching courses (offered by public/private colleges and universities) among the youth today.

Economic Significance:

India's share in the global tourist arrivals is only 3.4% while its share in the country's GDP is 12% (accounting for 0.62% of the world tourist receipts). Even with this tiny global market share, the economic impact of tourism on the country has been significant. In 2000, foreign exchange earnings from tourism were Rs.14,408 crores, with an estimated direct employment of about 15 million. In India, the sector also provides employment to 120 lakh people indirectly. For every Rs.10 lakh invested, the tourism industry creates 47.5 jobs. Now, India has only 2.4% of its labour force employed in this sector, but this proportion is bound to grow in the coming years, with increasing tourist traffic. Indian tourism with its various forms – religious, ethnic, adventure etc, has vast potentials for in-house as well as international visitors.

Tourism has economic significance for a country. The receipts from international tourism can provide a valuable source of earnings for both developed as well as developing countries. Visitors' spending generates income for public and private sectors, besides affecting wages and employment opportunities. Although tourism is sensitive to the level of economic activity in the tourist generating countries, it provides more fixed earnings than primary products. The income from tourism has tended to increase at a higher rate than merchandise export in a number of countries, especially in countries having a low industrial base. Thanks to the vibrant tourism industry there is now an almost assured channel of financial flows from the developed countries to the developing countries raising the latter's export earnings and rate of economic growth. The flow is on with its leakages and injections, thanks to the multiplier effect.

Income Multiplier:

Multipliers are a means of estimating how much income is produced in an economy as a result of initial spending or injection of cash. Earnings from tourism occupy an important place in the national income of a country. Without taking into account receipts from domestic tourism, international tourism receipts alone contribute a great deal. The flow of money generated by tourist spending multiplies as it passes through various sectors of the economy. Apart from being an important source of income, tourism provides a number of other economic benefits, which vary in significance from one country to another and also depends on the nature and scale of tourism. Tourist facilities such as hotels, restaurants, museums, clubs, sports complexes, public transport, and national parks are used also by domestic tourists and visitors, businessmen and residents; yet a significant portion of the costs may be borne by international tourists. Tourists also contribute to tax revenue both directly through sales taxes and indirectly through property, profits and income taxes. Tourism provides employment, brings infrastructural improvements and helps regional development, in turn adding to the income flow. It is a chief labour intensive industry. This paved the way for modifications and modernisation.

Labour Intensive Industry:

The tourism industry being a service activity and hence a highly labour intensive industry is a valuable source of employment. It employs large number of people and provides a wide range of jobs which extend from the unskilled to the highly specialized. In addition to those involved in management, there are a large number of specialized personnel required to work as accountants, housekeepers, waiters, cooks and entertainers, who in turn need large number of semi-skilled workers such as porters, chambermaids, kitchen staff, gardeners, etc. In addition, it should be emphasized that tourism is also responsible for creating employment outside the industry in its more narrowly defined sense and, in this respect, those who supply goods and services to those directly involved in tourism equally are beneficiaries from tourism. Such indirect employment includes, for example, those involved in the furnishing and equipment industries, souvenir industries and food-chain industry.

The majority of jobs associated with travel and tourism tend to come in the form of direct service jobs in tourist-related facilities and attractions at the destination and in tourist-generating areas. However, the bulk of the jobs are generated from tourist destinations. These jobs are available primarily in accommodation sector (e.g. hotels), with travel intermediaries (travel agents, tour operators) supplying services, restaurants, shops selling discretionary goods and travel enterprises. In addition, employment opportunities are also available in other sectors of the economy which service and supply the main tourism sector, such as manufacturing and transport services, banking, agriculture and fisheries. Many of the jobs are created in areas where few alternative employment opportunities are available.

The construction industry is another very big source of employment. The basic infrastructure roads, airports, water supply and other public utilities and also construction of hotels and other accommodation units-create jobs for thousands of workers, both skilled and unskilled. This important sector represents appreciable source of employment of manpower. In many of the developing countries, where a high rate of unemployment already exists, the promotion of tourism can be a great boost for economic development and especially, for employment. The other side of the picture shows the need for strengthening the HRD component of tourism sector in the country. While discussing about employment, it is necessary to consider the seasonal nature of the tourism industry. In areas where general diversification alternatives are scarce, a combination of heavy dependence on tourism and highly marked seasonality calls for measures to develop off-season traffic.

Seasonal Pattern in India

The foreign tourist arrivals to the country follow a seasonal pattern. The winter months from October to December constitute the main tourist season in India. The arrivals get reduced to some extent during the March and reach the lowest level during the summer months of April to June. This causes some problems as hotel rooms go a begging during the off-season. Fortunately due to the recent liberalisation of the Indian economy a large number of foreign businessmen are visiting India during the off-season.

The average duration of stay of foreign tourist in India is one of the highest in the world. On an average, it exceeds 27 days in the case of non-package tourists and is about 4 day in the case of package tourists. In terms of significance, the average per capita expenditure of West Asian tourists exceeds all other visitors

The quarterly indices of seasonality in foreign tourist arrivals are given below.

<i>Quarter</i>	<i>Index</i>
January – March	107.8
April - June	77.8
July - September	96.0
October-December	118.4

Source: Premnath Dhar, 2000

Plan Allocations for Tourism in India

Tourism development in the country has always been an integral part of the five year plans with planned allocation of funds for that sector (see Table-1). But it received the necessary momentum only with the formulation of National Tourism Policy in 1982. Further impetus to the Indian tourism industry was given by declaring the year 1991 as the '*Visit India Year*'. For the year 2001-02, the outlay for tourism was Rs.150 crores only. Major share went to information and publicity, overseas and

domestic (Rs.58 crore), followed by tourist infrastructure (Rs. 41.85 crore), computerisation, information technology and Subsidies/incentives (Rs.24 crore), HRD (Rs.10.35 crore) and projects/schemes for North East and Sikkim (Rs. 14.8 crore). During the Annual Plan of 2002-03, a sum of Rs. 41.50 was kept for the new restructured scheme of Integrated Development of Tourist Circuits. During the Tenth Plan six selected circuits – one in each zone – would be enhanced to international standards. Production/Infrastructure and Destination Development is another major scheme that is being restructured (outlay: Rs.18 crore). In all the plans, targets were set for tourism development on both demand and supply sides, but somehow these were not achieved either in absolute or relative terms.

**Table1. Plan Allocations for Tourism in India during
Various Five Years Plan**

Five Year Plan	Expenditure (in Rs.Crore)
First Plan	----
Second Plan	3.36
Third Plan	5.00
Fourth Plan	36.00
Fifth Plan	73.95
Annual Plan (1978, 79,80)	109.00
Sixth Plan	187.46
Seventh Plan	432.00
Eighth Plan	490.42
Ninth Plan	595.00
Tenth Plan	2900.00 (proposed)

Source: Department of Tourism, Government of India (2002), New Delhi, India, and various Five-Year Plans

The number of tourists arriving in India and travelling within has been increasing continuously, but in achieving a reasonably satisfactory share in global market, the performance has been less than encouraging. The general trend is one of rising arrivals and earnings even though the pace of growth is slow.

Growth Trends in Tourist Arrivals

Compared with international and regional standards, India has lagged far behind in reaping the benefits of tourism. The reasons can be traced back to the economic plans and policies of the Government of India. It was a late entrant on the tourism scene and after independence the country's natural priorities lay with other sectors. Consequently, the country never developed a tourism culture in its true sense

despite its tradition of “*Atithi Devo Bahava*” (Guest is equal to God) and a large base of domestic travellers. The industry has grown with a slow pace and its resource potential is under-utilized and under-achieved.

India is considered as a safe destination compared to other countries. Foreigners are visiting India for serious medical help as well as rejuvenation therapies and other specific purposes. The process of economic reforms has had its own impact in India. Domestic aviation has been opened to the private sector, foreign investments in tourism are encouraged and a number of incentives are in place. As a result, the India tourism industry has become a major source of invisible earnings.

After liberalization, the Government of India has done much to encourage tourism in order to attract foreigners. Air-fares have been reduced and rooms in two and three star hotels are affordable for average middle class people. The government has increased its allocation to a sizeable amount of Rs.2900 crore during the 10th plan period.

Domestic tourists in India rose from 63 million in 1990 to 109.2 million in 1993 and further to 234 million in 2001, registering an annual growth of over 10%, the growth largely being an outcome of the economic prosperity of the last decade. International tourism to India has had a reasonably good growth since independence (see Table 2). The tourists’ data shows that the number of foreign tourists arriving in India has registered a phenomenal growth over the years rising from 16,829 arrivals in 1951 to 1.68 million in 1991. It further went up to 2.75 million in 2003. After the GATS agreement the number of tourist arrivals to India is slowly increasing over the years. As per the latest data the number of arrivals is around 3.36 million in 2005 (World Tourism Organization estimates). Major arrivals come from Europe and South African countries with more than 10 per cent of growth rate. In case of percentage change, Central and South America and Africa are the main leading regions.⁵ Except Eastern European countries, rest of the blocks shows positive change in tourist arrivals to India. The proportion of repeated visitors to India is 44.9% of overseas visitors.

The Indo-Pakistan war of 1971 brought the traffic to a virtual halt, but it revived soon after. Since there was a marked decrease in the growth rate during the period 1980- 90, the first major effort to promote the industry was launched with the announcement of 1991 as the “*Visit India Year*”. The enormous tourist resources were commercialized and tourism declared as an industry which offered a product of marketing. The Lathur earthquake, Babri Masjid demolition, bomb blasts in Bombay and plague epidemic in Surat adversely affected tourist arrivals which increased by only one per cent during 1992 to 1994. For the time tourists arrivals exceeded two million in 1995 due to greater elimination of controls on economy by the government of India. It is the result of the various measures adopted by the Ministry of Tourism.

⁵ Countrywise the largest arrival is from UK, followed by Sri Lanka, France, Germany, Canada, Japan, Australia and Singapore in that order.

The tourist arrivals during the year registered a positive growth of 4 per cent as compared to the corresponding period of previous year (Annual Report, GOI, 2001)

Table 2 also provides information on foreign exchange earnings from tourism. It clearly indicates that tourism industry in India has been earning invaluable foreign exchange since beginning of the planning era. During 1951-52 the foreign exchange earnings from tourism industry was only 7.7 crores and it doubled in 1960-61 in 1971-72 it was Rs.32 crores and in 1981-82 it was Rs.1063.9 crores. The real earnings started only in the eighties and specifically in the nineties because of the policy measures taken by the government of India (during 1991) to boost tourism industry. As a result of these policy initiatives today India is able to earn significant revenue from this industry.

**Table 2: Foreign Tourist Arrivals in India
and foreign exchange earnings through tourism.**

Year	Arrivals (in million)	Earnings (US \$ million)
1960	0.12	--
1970	0.28	--
1980	0.80	--
1991	1.68	1,861
1992	1.87	2,126
1993	1.76	2,124
1994	1.89	2,272
1995	2.12	2,583
1996	2.29	2,832
1997	2.37	2,889
1998	2.36	2,948
1999	2.48	3,009
2000	2.65	3,168
2001	2.54	3,042
2002	2.38	2,923
2003	2.75	3,533
2004	3.37	--

Source: Market Research Division, Department of Tourism,
Government of India.

GATS and India's Tourism

The General Agreement on Trade in Services a complex agreement under the WTO superstructure has far-reaching implications for India's tourism development.

GATS defines a service in four different ways, two of which are relevant for tourism *per se*. One is that of “consumers from one country making use of a service in another country, officially known as ‘consumption abroad’, e.g. tourism”. Another is that of “individuals travelling from their own country to supply services in another country, officially known as ‘movement of natural persons’, e.g. an actor or construction worker.

Tourism has been one of the sectors, in which more countries have undertaken commitments than in other sectors. There are three aspects relating to Indian liberalization under the GATS with regard to tourism. One is whether India is in a position to export labour, capital and technology to reap the advantages of enhanced market access in the tourism sector of selected countries and two, whether India can import capital, technology and expertise to improve and upgrade its tourism sector. The third little known aspect of liberalization of tourism services is the developmental, socio-cultural and environmental effects that liberalization can have on local communities and sensitive locales.

India has liberalized its hotel and restaurant services, travel agency and tour operator service, food and beverage services, and tourist guide services. In the absence of appropriate tourism incentives and measures by India within and beyond the GATS, the international tourism scene with its growing focus on China and other East Asian countries, can have adverse impact on India’s international tourist traffic. Among the segments of tourism, and travel related services, India’s potential niche market for exporting expertise appears to be in food serving services and to some extent - depending on the countries concerned - in hotel and restaurant services.⁶

With the shortage of both trained managerial personnel and capital to invest, it is not easy for India to benefit from the liberalization opportunities created by the GATS offers in tourism. However, export of food servicing services can be tied up effectively with those countries that have liberalized such services. In spite of widespread liberalization in tourism services, there has been increasing pressure from powerful blocks like the European Community to further open up Indian tourism.

Experts suggest that the future commitments under tourism should be made by the Government only with the widest range of consultations with the relevant stake holders. Otherwise, the implications could be negative for the tourism industry as well as for environment. There should be co-ordinated strategy between tourism, environment, transport and civil aviation departments and a new regulation to ensure sustainable development of tourism. Further, as is the practice in GATS, India should seek limitations (exceptions) in various modes of tourism service supply from abroad based on ground reality. Such limitations would help in protecting the environment as well as in building up capabilities on the part of local and small service providers in

⁶ As on March 2002 India has more than 1400 hotels approved by the Department of Tourism, of which 65 are Five Star Deluxe, 72 Five Star, 107 Four Star, and 70 are Heritage Hotels. The classification, however, is an on-going process.

tourism. There should be improved implementation of environmental regulations to protect environment from the adverse effects of tourism growth as well as to enable an environmental goods and services market to emerge. Further there is a need to improve and develop infrastructure, if the country has to benefit from liberalized trade by way of an environmental friendly tourism industry.

Problems and Policy Prescriptions

World tourism is booming, but in India it is marred by problems.

1. Low Share in world: India's share in global international tourism is only 0.38%. This really is unfortunate for a country as vast and diverse as India. Even smaller countries like Sri Lanka, Singapore, Malaysia and Nepal are attracting more and more travellers and tourists, due to better planning and infrastructure. In the year 2000 China, our neighbouring/developing country with 31.2 million tourists (annual) was the 5th largest tourist country. Its growth rate was 18% while India's growth rate was 4%. Vietnam attracts 2.1 million tourists every year. Where should India stand?
2. Inadequate Capacity: Indian Tourism faces a huge capacity problem. There are simply not enough hotel rooms available in the country and consequently the product has become very expensive. In 2002 India had 85,481 hotel rooms as against 8,97,206 in China and 1,30,757 in Malaysia. It is projected that by 2010 India needs 1,60,000 rooms to accommodate 5.89 million tourist arrivals.
There is also inadequacy of air seat capacity. This is also due to very low investment. In India tourism investment is only 0.9% of the annual budget while in Malaysia it is 5.1%, China 7.4%, Singapore 9.1%, and in Spain it is 9.5%.
3. Costly Travel: The airfares are under control but land costs and fuel surcharges are soaring. There is also very little organized effort to synchronise domestic and foreign travel fares and facilities as is being done elsewhere in the world. Even travel schedule and associated services (translation, transcription etc.) are poorly managed by the agencies. Many a times language becomes a big barrier for travellers, both domestic and foreign.
4. Poor Organisation: Domestic tourism market in India is very unorganized and fragmented. There are no stringent rules for one to become a travel agent, which is making the scenario crowded and chaotic. Major stumbling block for domestic travel is the high service tax which agents have to pay on commissions. Constraints like lower spending of tourists and consumer's direct interaction with service providers are the current issues of contention.
5. Uneven Progress: Tourism in India has not made even progress across states and their sub-regions. Till recently it was erroneously treated as an urban-centred, elite activity. The concept of village tourism was thoroughly neglected even while discussing and planning rural transport albeit slowly. Lack of information about tourist profile adds to the problem.

Thus, compared with international and regional standards India has lagged far behind in reaping the benefits of tourism. The reasons can be traced back to the economic plans and policies of the Government of India. It was a late entrant on the tourism scene and after independence, the country's natural priorities lay with other sectors of the economy. Consequently, the country never developed a tourism culture in its true sense despite its tradition of '*Atithi Devo Bhava*'. The industry has grown with a slow pace and its resource potential is under utilized and under-achieved. Problems faced by tourism industry in India such as inadequate infrastructural facility, lack of transport facilities, lack of availability of skilled labour and good policies etc, therefore, appear perennial and pertinent.

Keeping in mind all the problems as well as the urgent need to solve them, the government of India announced the New Tourism Policy, 2002⁷. Its key features are as follows.

- Making the most of the peak travel months, i.e., October to March
- Simplifying the visa procedure
- Developing cultural and heritage tourism
- Promoting Indian cuisine
- Showcasing rural tourism as a primary by-product of Indian Tourism⁸
- Better coordination and projection of tourism aspects such as wildlife, flora and fauna, fairs and festivals of India, both domestically and internationally
- Augmenting infrastructural facilities such as highways, hotels etc.
- Stepping up investment levels in crucial areas
- Providing necessary fiscal and financial incentives for individuals/institutions that contribute to tourism development in the country

From the foregoing analysis it is clear that tourism has grown from the pursuits of a privileged few to a mass movement of people with the urge to discover

⁷ The new policy is built around the 7-S Mantra of *Swaagat* (welcome), *Soochana* (information), *Suvidhaa* (facilitation), *Surakshaa* (security), *Sahyog* (cooperation), *Sanrachnaa* (infrastructure) and *Safaai* (cleanliness). This is meant to make India a safe and exciting tourist destination.

⁸ It is for the first time that village tourism is recognized as a policy matter for focussed development. If we believe that India (still) lives in its villages – home of traditional art, culture, unity and diversity – than giving importance to this aspect is not out of place today. Two villages, one each in Himachal Pradesh and Orissa have already been selected by the Ministry of Tourism, Government of India for pioneering efforts in this direction. Sudan and Bali have success stories to tell about rural tourism. Even in China, agri-tourism is fast emerging as an alternative strategy of rural development and tourist experience. India should draw from the rich experiences of these countries. Also, a model plan for each state of India has to be prepared.

the unknown., to explore new and stranger places (and people?), to seek changes in environment and to undergo new experiences. But the sector still faces problems that are not difficult to surmount. It is necessary to deal with the constraints on a war footing so as to make India's tourism a major engine of growth for generating not only revenue but also substantial amount of employment and eco-concern. Therefore, the need for a holistic view and development of tourism today. A few prescriptions in this regard are made here:

1. *Inductive research* should be put to actual practice. The research should be socio-economic in character and the results should be sifted in the context of both local and global destinations and desirability. The historical and cultural linkages between place and people should be considered both in terms of consumption and production of tourist products. More thrust should be put on areas of common interest between people of different destinations as well as of contemporary relevance.⁹
2. We need to develop a proper *understanding of and planning* for the key aspects of tourism development namely (i) regional variables (e.g. culture, history of external contact, location etc.); (ii) initial forces such as local community, local institutions and agencies and external forces (e.g. aid agencies); (iii) fiscal, financial and equity issues; (iv) tourism knowledge and training (e.g. HRD of tourism); (v) tourism leadership (vi) coordination of stakeholders (e.g. tourist consumption and market research and analysis); (vii) tourism infrastructure; and (viii) distribution systems of tourism.
3. *Alternative Tourism* – a new option for the future – should be promoted. The world is looking at India, an old country with a new vigour because it has new found areas even in its traditional wealth. Alternative tourism includes new concepts in tourism like health tourism, village tourism, sports and games tourism etc. With more and more tourists turning east for medical treatments, India is rapidly growing into a major treatment centre and health destination. It is expected that one million tourists will visit India by 2010 for this purpose alone, giving the country a neat foreign exchange earning of Rs.5,000-10,000 crore.¹⁰ Similarly village

⁹ One such area is the “thirdspace” approach to tourism and related fields. Examples: urban regeneration, cultural planning, health geography etc. Likewise Rural Tourism and Health Tourism offer immense scope for pragmatic research today. Indian rural environment and its linkages with urban and ‘rurban’ areas need to be studied in depth.

¹⁰ India has the strategic advantage in healthcare area which includes world-class doctors and availability of both modern knowledge and traditional healthcare wisdom, and competitive cost of treatment. Ms. Renuka Chowdhury, Minister of State for Tourism has said that in collaboration with the medical industry, price bending of Indian hospitals has been completed to ensure uniform and reasonable prices for specific treatments. Other steps being taken include accreditation of hospitals, issuing of medical visas (for 6months to 1-year stay), and campaign

tourism needs to be fostered in the vintage of global village. In fact tourism can be a catalyst for socio-economic development in numerous rural areas. Tourism has pervading as well as penetrating effects. Therefore, it can be and should be developed in the length and breadth of the country. With alternative tourism we can ensure that tourists will arrive for one reason or the other – for sight-seeing, for playing, for praying or for paying attention to their body, mind and their health. Alternative tourism also helps in reducing the seasonality of tourism and underuse of tourist facilities and services.

Summary and Conclusion:

As someone has said, “Thinking is the best way to travel”. But travelling gives us food for thought. It is an energising activity for all ages. Tourism is a fast growing economic activity, the speed in modern times attributable to the rapid progress in transit technology and the liberal environment in the world. Anybody who has the inclination and the wherewithal to tour can go around the globe with fewer obstacles than before. With diasporic voyages on the rise more and more destinations are being hunted with the vehicle of tourism. The value-added effect of tourism is increasing. Sustainable tourism can be developed by convergence of landscapes with finanscapes, technoscapes, mediascapes and ideoscapes.

India’s tourism industry too has witnessed significant upsurge paying rich dividends to both consumer and producers. India has emerged as one among the world’s top 40 tourism earners in 2005. Thanks to the vibrant tourism industry there is now an almost assured channel of financial flow to the country. Being highly labour-intensive industry tourism is also a major source of employment. India is also fortunate that the adverse effect of seasonality on its tourism is not much. Plan after plan the allocation is being stepped up and added emphasis is given to infrastructure and other related aspects for tourism development in India. The effect is clearly seen in increasing arrivals and earnings. But with the commitments under GATS, India has to gear up its resources to face competition both by developed and developing countries. No doubt it has some favourable factors in its geographical size and diversity, famous food and beverage industry etc. But trained managerial expertise and sufficient capital to invest is woefully lacking. So the problems of low share in world tourism, inadequate capacity, poor infrastructure etc., are glaring. The new tourism policy of 2000 tries to address these problems both directly and indirectly. The need for a holistic approach to tourism in India is however, felt what with fresh challenges of the new millennium. The challenges can be squarely faced not only by strengthening our traditional products of tourism but also by venturing into new areas

in overseas markets to present India as an attractive medical destination. The India Vision 2020 Report says that medical tourism could become rival to the IT sector within the next decade.

such as health tourism, sports tourism, entertainment tourism etc. Alternate tourism seems to be the future of India's tourism.

Government of India is earning significant income from tourism industry. Although tourism is an invisible item in the country's BoP, it is not an invisible phenomenon as far as the tourist, are concerned. The tourists expect good infrastructure, better amenities and best services. A destination's attractiveness can get diminished by poor infrastructure, violence, political instability, natural catastrophe, adverse environmental factors, over crowding and high cost –economic as well as social. From mystic India to modern India, tourism in India has come a long way. Besides the country's heritage we now have the foreign chains in India market, including Hyatt, Four Seasons, Hilton, regent, Radisson and Holiday Inn. The result is that the quality of service has improved. Therefore, a concerted effort is called for from the various players in the tourism industry to make all the positive experience to happen. Building a culture of tourism in the host population and industry requires the best of policies, plans and managerial skills. In short we need to give consistent, efficient and coordinated encouragement and attention to our Travel and Tourism Sector to give it the required resilience in the coming years and millennium.

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