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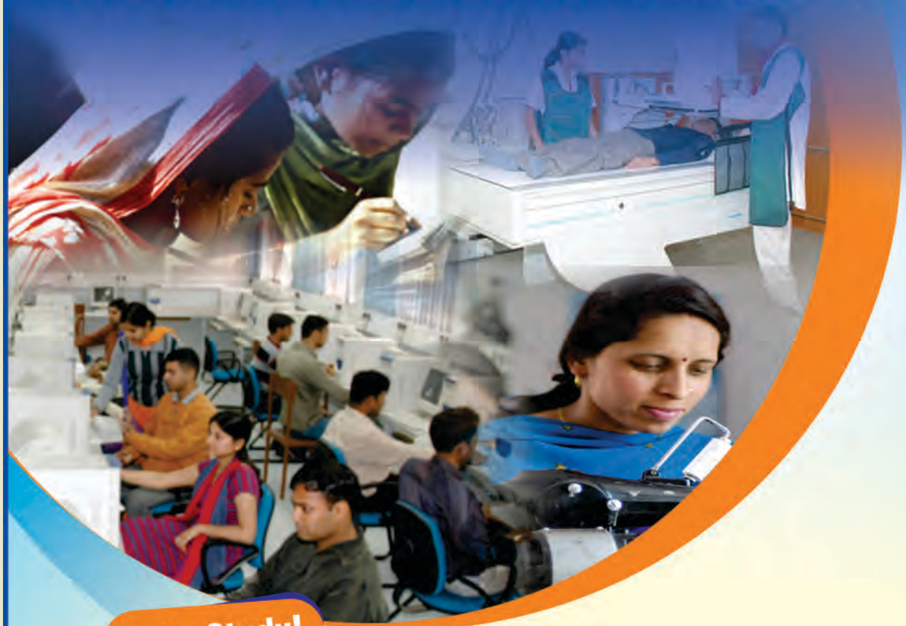

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Let noble thoughts come to us from all sides
Rig Veda

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Political Economy of FDI

India has come a long way in its tryst with destiny struck more than six decades ago. A lot of water has since flown not only in Ganga but in Mississippi, Yangtze, Danube, Nile and Amazon too. The economic reality of the world has undergone a drastic change. The strong appeal of the nationalist world view which emerged in the historical backdrop of anti-colonial struggle in Asia, Africa and Latin America in the middle of the 20th century has lost a lot of its shine. The world today is far more inter connected and the destinies of the countries are far strongly intertwined than half a century ago. Invoking the titles of the famous historian Eric Hobsbawm's books, it can be said that the *'age of empire'* that gave birth to the *'age of revolution'* has come full circle to herald the *'age of capital'* as we step into the 21st century world. The architecture of the world economic system is now powered more and more by the huge flows of capital from one part of the world to the other. The sheer magnitude and power of the inter- connected world makes it incumbent upon us to examine it deeply and understand the complex neural network of finance that lies at the core of the globalised world economy.

In case of India, starting with the Import Substitution Industrialisation (ISI) model of the early years, a number of distinct phases can be identified in its economic policy framework so far as FDI is concerned. It has been observed that 'the pattern of FDI inflows in India.. has gradually evolved from the period of anti-FDI inflows (1969-75) to selective FDI inflows (1975-91), and finally to pro-FDI inflows after the economic reforms of 1991'. These periods of economic policy have quite well identifiable phases in Indian politics too. It is far more realistic and accurate to look at economic policy changes in the overall social and political context in which these policies are articulated and actualised. While there may be a debate about the model of economic development followed by India in the few decades after independence, it is generally agreed that India built a strong and sustainable economic infrastructure and institutional mechanism that allowed it to face the challenges of globalisation on its own terms.

Institutional reform is the key to the success of the policy to attract FDI in the country. The government has embarked on a number of initiatives towards making FDI in India attractive. Sectors such as defence production, construction, retail etc have been opened up for FDI. The government has been actively pursuing the goal of making India a manufacturing hub through its 'Make in India' initiative and invitation to foreign companies to invest in India. The share of FDI net inflows in India has gone up from 0.1 percent of GDP in 1992 to 1.7 percent in 2011 and expected to go up further. FDI is becoming a more and more important component of Gross Fixed Capital Formation (GFCF) in India touching a level of 6.4 percent of the total in 2011.

However, the crucial point today is how to exploit and utilize the opportunities thrown by the process of globalisation. Clearly, it can be successful only if it does not get stalled by social, environmental and political factors. The success of the economic initiatives to attract foreign capital critically depends upon building consensus in the society, especially among those who are at the margins and who may suffer dislocation and disruption of livelihood and environment in the process. If we lose sight of this, the *Kamdhenu* of the FDI may be overshadowed by the spectre of East India Company which too sought legitimacy in the name of trade and investment about two centuries ago. ❑

Why Do Indian Firms Go Abroad?

V N Balasubramanyam
Nicolas Forsans

The abolition of rules, regulations and restraints on entrepreneurship during the 1990s unleashed the animal spirits of the entrepreneurs and their desire to participate in the global economy through trade and investment. The sort of ownership advantages Indian firms investing abroad possess are in the domain of organisation, identification of investment and market opportunities and entrepreneurial talent that enables them to operate in international markets

In recent years, India and China have not only liberalised their FDI regimes, but also emerged as investors abroad. Although, the volume of India's investments is much lower than that of China, the composition of India's FDI, centered on manufactures and services, its heavy presence in the developed countries, its method of entry into foreign markets based on acquisitions principally the UK and the US, sets it apart from the other emerging economy investors. It is these characteristics of India's investments that require analysis. This paper argues that it is the unique managerial abilities possessed by Indian firms that account for the sort of investments they have undertaken .

Size and Pattern of India's Investments Abroad

The total stock of India's FDI increased from a meagre $124 million in the year 1990 to $ 111,257 million in 2011 with a share of 3 per cent in the total Overseas Direct Investment (ODI) stock of the developing countries (Table 1).

India's ODI is significantly different from that of China in its composition-whereas a large proportion of China's investments is in oil and raw materials, India's investments are in manufacturing and services (Table 2).

Third, more than 50 per cent of India's ODI is in the developed economies while more than 75 per cent of China's ODI is in the developing economies.

By the end of the year 2008, India was the second largest investor in the UK, next only to the US (Figure 2).

Fourthly, the growth of India's ODI is mostly through acquisitions (Figure 3). In the year ending in August 2010, India was second in the list of the ten most acquisitive nations, with a share of 24 per cent of cross-border M&A transactions originating from emerging economies. (Wagsty l, 2010). Over the years 2000-2009, Indian firms accounted for 1347 mergers and acquisitions amounting to $72 billion (Table 3).

Traditional Explanations

Firms invest abroad to exploit their monopoly over advantages (O) especially so, when market

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Table 1: Stock of China and India's ODI ($ Million)

Countries	1981	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
China	39	900	4,455	17,768	27,768	57,206	73,330	95,799	147,949	229,600	297,600	365,981
India	80	93	124	495	1,733	9,741	27,036	44,080	62,451	77,207	92407	111257

Source: UNCTAD (www.unctad.org/fdistatistics)

Table 2: China & India ODI

	2000/01 to 2006/07 (Billion $)	% share of total	2008/09 to 2011/12 (Billion $)	% share of total	2004 to 2007 (Billion $)	% share of total	2008 to 2010 (Billion $)	% share of total
Primary Sector	1.06	0.64	4.94	8.53	16.93	26.0	25.93	14.30
Secondary Sector	10.98	43.46	25.96	45.00	6.06	9.0	14.18	7.83
Tertiary Sector	13.22	52.00	26.93	46.54	42.34	65.0	141.14	77.87
Total	**25.26**		**57.86**		**65.43**		**181.24**	

Source: UNCTAD (www.unctad.org/fdistatistics)

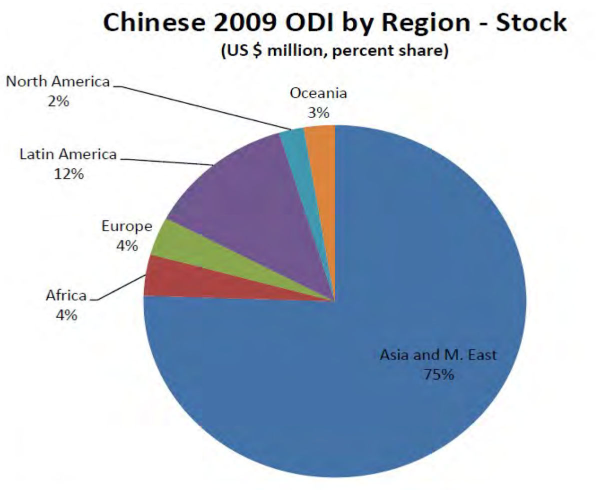


Figure 1

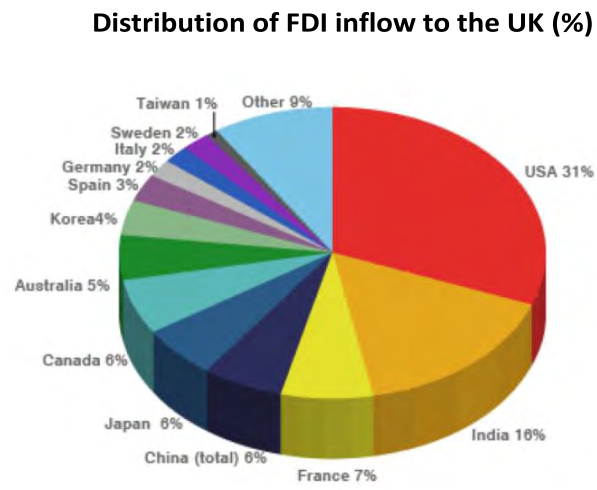


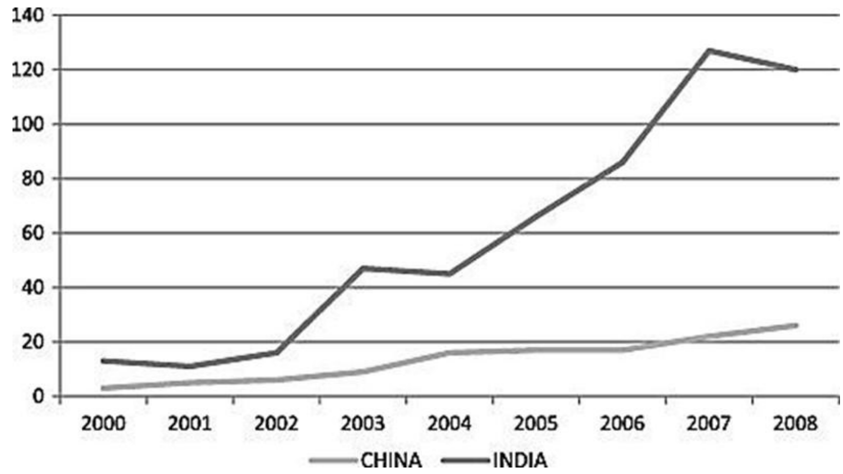
Figure 2 (Source: The Economist, 2009)

Table 3: Geographic Distribution of cross-border Merger &Acquisition Purchases by Indian Companies, 2000-2009

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
USA	22	12	9	17	20	35	43	62	76	27	323
UK	5	2	8	11	7	16	26	20	36	12	143
USA+UK	27	14	17	28	27	51	69	82	112	39	466
Canada	0	0	0	0	0	2	5	9	7	9	32
Others	34	29	34	52	47	91	111	112	198	141	849
TOTAL	**61**	**43**	**51**	**80**	**74**	**144**	**185**	**203**	**317**	**189**	**1,347**

Source: Thomson One Banker (2010)

Figure 3: Acquisitions by India and China



Source: DeBeule and Duanmu(2012)

imperfections and institutional factors deny them the options of exporting the products or licensing the advantages they possess to foreign entities. This insight of Stephen Hymer (1976) has been discussed and elaborated to include choice of locations (L) for investments abroad and ways and means of guarding ones monopolistic advantages from predators(I). These three aspects of FDI are clubbed together and referred to as the OLI paradigm or the Eclectic Theory of FDI (Dunning, 1993).

The latest tests of the OLI theory relate to ODI from India and China (Pradhan 2011, Buckley et.al, 2007; Kumar, 2007 & Nunnenkamp et.al, 2010).The pioneering studies relating to India are those by Jayaprakash Pradhan who has (2008,2011, 2004). painstakingly put together a set of data from a number of sources including the media and unpublished data from government sources.

Pradhan's analysis suggests that high labour productivity, R and D expenditures, managerial skills as defined above, exports and the post 1991 liberalisation measures are all factors in the decision of Indian manufacturing firms to go abroad. It is arguable whether or not these results endorse the proposition that Indian firms venturing abroad possess ownership advantages of the sort that the OLI theory emphasizes. High labour productivity of the Indian manufacturing firms flows from the relatively high capital intensity of their production process and their heavy presence in industries that are typically capital intensive. These two features of Indian manufacturing are mostly a consequence of the pre liberalization import substituting industrialisation (ISI) era that is extensively noted in the literature (Bhagwati & Desai, 1970, Panagariya, 2008). In fact, most sub groups in the Indian manufacturing sector are much more capital intensive than comparable industry groups in China (Balasubramanyam and Sapsford 2007).

On top of the list of variables included in Pradhans' analysis of ODI by Indian firms is managerial skills. Indeed, managerial expertise of Indian firms is an ownership advantage that influences firms to go abroad. But managerial abilities that consist of a variety of attributes are not easily quantifiable. Pradhan quantifies it by regressing profits per unit of assets of firms on age, size, R and D, royalties paid for imported know, how, sales expenditures and a set of dummy variables for type and ownership of industries and sectors. The estimated level of profits is deducted from the actual to arrive at returns to managerial expertise. This is an ingenious method of estimating managerial skills, something that is inherent in managers, which includes entrepreneurial skills unrelated to factors that characterize the firm. There may, however, be one problem with the measure; it may merely reflect total returns to capital, say value added net of wages. If the wage rate is low or the level of employment is low, the residual after deducting wages from value added would be high. Put another way, high profits may not be due to a high rate of return to managerial ingenuity but just total returns to ownership of capital, unearned income in Marxist terminology.

Managerial talents including organisational abilities are captured in the 'A' term(indicator of total factor productivity) in the estimated Cobb-Douglas type of production functions subject to constant returns to scale. Available estimates of total factor productivity growth in the Indian economy show that it hasn't increased by much in the post liberalization period (Deb Kusum et.al, 2010; Goldar and Kumari, 2002, Sen, 2007). Goldar and Kumar's study records a decline in the annual rate of growth of total factor productivity of Indian manufacturing sector in the post liberalization period compared with that during the pre-liberalization period. They attribute this decline to low capacity utilization in Indian manufacturing firms in general. Yet another study (Mukherjee & Majumdar, 2007) that provides a detailed analysis of technical change in Indian organised manufacturing industry from the year 1980 to the year 2000 arrives at a similar conclusion.

The absence of technical efficiency in the case of most manufacturing firms shouldn't be regarded as the absence of managerial talent required to increase productivity of inputs. It is just that in the presence of rigid labour laws and a bureaucracy intent on stifling initiative, managers may have opted for profit maximization through the adoption of capital intensive technologies.

The statistical results referred to earlier suggest that firms with large profits tend to go abroad. But not all firms with large profits may be able to do so. Indeed, it is likely that many of the firms that have invested abroad may have raised funds for investment in international capital markets. Those Indian firms that have ventured abroad enjoy a unique ownership advantage that can be termed entrepreneurship that includes managerial efficiency, risk taking, forecasting and identification of new markets to name only a few of the attributes of entrepreneurship. Indian firms may be unique amongst the firms of the emerging economies in this respect. How and where do these unique attributes of Indian managers come from?

Those Indian firms that have ventured abroad enjoy a unique ownership advantage that can be termed entrepreneurship that includes managerial efficiency, risk taking, forecasting and identification of new markets to name only a few of the attributes of entrepreneurship. Indian firms may be unique amongst the firms of the emerging economies in this respect. How and where do these unique attributes of Indian managers come from?

Reports on acquisitions made by Indian firms suggest that foreign investors in Indian firms prefer to invest cash rather than acquiring equity in Indian firms.

The Unique Attributes of Indian Firms that Go Abroad

It is impossible to generalise on the factors that influence firms to go abroad (Ramamurti 2008, Athreye and Sayeed 2013, Athukorala, 2009). The one reason most firms from emerging markets invest abroad is to acquire technological capabilities inherent in existing firms- this is the so called asset seeking motive for ODI. The acquisition of existing firms requires managerial efficiency, but it is not the kind that is referred to in the statistical studies. They are of a different order and include identification of the nature and productivity of the assets that the targeted firms possess, their market potential, risks involved in operating abroad and above, all the ability to manage operations in a foreign locale.

Additionally, the acquired firms may have to be revived, they may possess production oriented advantages but may be ailing because of their inability to explore and develop markets. Indian managers investing abroad seem to possess these sorts of skills, or to use an expression coined by Keynes "animal spirits" of entrepreneurs. It is such entrepreneurial talent that seems to have led several Indian firms, to raise the capital required for their investments abroad in international capital markets. In the words of Nathaniel Leff (1979) "entrepreneurship may reflect superior information, more importantly imagination, which subjectively reduces the risks and uncertainties of new opportunities, which are ignored or rejected by other investors"

Studies on entrepreneurship classify entrepreneurship into two broad groups- necessity entrepreneurship and opportunity entrepreneurship (Koster & Raj, 2008). The former comes into play when employment opportunities deteriorate and job seekers are forced to establish production facilities on their own. Opportunity based entrepreneurship occurs when firms explore ways and means of capturing new markets. Indian firms venturing abroad in the post liberalisation era may belong to the opportune based class or Schumpeterian entrepreneurs.

The entrepreneurial instincts and expertise of Indian firms is to be traced to several unique features of the Indian economy. Foremost of these is the inheritance from history. India has had a long history of business entrepreneurship marked by its caste and community orientation. Foremost amongst these groups are the Banias and the Marwaris, primarily merchants and money lenders with a prominent role in financing India's foreign trade during the British colonial era. The Parsis who had no religious affiliation with either the Hindus or the Muslims were in a class of their own. They provided a link between the British and the Indian business houses.

Harish Damodaran (2008), in a study of India's business classes, captures the special relationship of the Parsis with the British; "*being part of neither the Hindu nor Muslim mainstream, nursing no political ambition and exposed to commercial influences because of their proximity to the ports of Bharuch, Surat, and Daman, the Parsis seemed ideal for recruitment as native brokers, agents and shippers*" (Damadoran, 2008, p.14). Their business ties with the British East India Company were extensive, stretching to participation in the lucrative opium trade with China in the 19th century.

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Business interests of both the Parsis and the Banias were in global markets for cotton, tea, silk and other raw materials. A feature of Indian business enterprises during the colonial period was the ability of the Indian businessmen to move with ease between two cultures- the Indian and the European. As Tirthankar Roy (2011) writes "*the Indians moved between the informal world of community norms and the formal world of corporate law and legality* *than the Europeans, They straddled both spheres successfully, and used it to great advantage in undercutting European cartels"*

The second factor that has contributed to the development of entrepreneurial talent amongst Indian firms is the existence of business groups, mostly of the family orientation. Three quarters of the number of foreign acquisitions estimated at 1347 during the period 2000-2008 are reported to be undertaken by group affiliated firms as opposed to stand alone firms. This reflects the superior advantage enjoyed by business groups over stand alone firms that enable them to efficiently internalize market externalities. (Pradhan, 2010, Khanna and Palepu, 1997, Khanna and Yateh 2007). Group oriented firms are not unique to India, they exist in other emerging economies too, but the family orientation of the Indian groups may be a feature of Indian business houses. The units that form the groups produce diversified products and services, but they all share risks, draw on a pool of finance and information and invest in training of labour and management. Groups make up for the absence of developed capital markets and institutions of the sort that facilitate risk taking and planning in developed countries.

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A third factor that has contributed to the entrepreneurial skills of Indian business is the system of education, unique to India, from historic times to the present day. As Tirthankar Roy (2011) notes, the education system in India during the colonial days was caste driven- *"the historical pattern of demand for education at all levels was biased towards certain castes and communities because these people had an inherited association with literate services. Groups that had contact with scribal professions, medicine, teaching, and priesthood, in the pre-colonial times, entered education, medicine and public administration in the colonial times. These classes and castes eagerly used the new schools and colleges, while other classes and castes entered schools on a smaller scale, and dropped out more readily. The correlation between family history of literate services, preference for service professions, and thus, preference for education, was especially close in the three port cities – Madras, Bombay, and Calcutta".* The education system was caste based and dominated by those who wished to enter the professions. It was thus that the elite caste groups advanced from primary to higher education and the system catered to their needs and primary education for the population in general was ignored. It is the caste based education, primarily oriented towards the civil service and the professions, which laid the base for the growth of the services economy and software in the services group, which is one of India's major investors abroad.

A fourth factor that has contributed to the growth of managerial expertise of the Indian business houses is the presence of India's diaspora in the UK and the US. Available data for the later part of the last decade shows that there were 1.6 million Indians in the UK accounting for 1.8 per cent of total population of the country and in the US, there were 2.8 million Indians accounting for 0.9 per cent of US population. The professionals in both the US and the UK act as what Devesh Kapur (2010) refers to as "reputational intermediaries"; they intermediate between foreign and Indian firms. Many of the diaspora are also what Jagdish Bhagwati (1974) refers to as "to and fro migrants," they traverse between India and the countries of their residence frequently and they have business interests in both countries. All of this enhances the managerial expertise of Indian business firms especially so in the service sector components of the economy such as finance, market intelligence and the software industry.

There may be two other explanations for this spectacular growth of Indian investments abroad. First, it may be easier to operate in the business environment abroad than that at home. Recent reports in the media note the frustrations of Indian businessmen with the slow moving government regulatory system, even on the part of those, known as the bollygarchs, who had built up a working relationship with the bureaucrats (Crabtree, 2012).

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Second, the attraction of foreign markets in the presence of a fairly lucrative domestic market in India has echoes of Britain's experience during the second half of the 19th century. During the period 1870-1914, Britain exported substantial volumes of portfolio capital mostly to the colonies, the total stock of British capital abroad in the year 1914 is estimated at $20 billion. These exports of capital occurred although, there was unemployment at home and a substantial deficit in the trade balance. The recipients of Britain's investments abroad were the colonies, they serviced the borrowings with their export earnings and Britain paid for its imports of raw materials from the colonies with these returns to its investments abroad. This scenario, revisited during the 1980s, aroused considerable debate between those who attributed Britain's capital exports to differences in rates of return and risk between domestic equities and foreign bonds (Temin, 1987) and those who attributed it to various sorts of imperfections in the domestic markets (Pollard, 1985; Balasubramanyam, 1989). The imperfections in the British domestic market that led to capital exports included structural rigidities, trade union power, and unwillingness to change occupations quickly. These sorts of imperfections and rigidities seem to be a feature of the present day Indian economy too and may account for the growth of ODI by Indian firms.

In sum, the sort of skills Indian entrepreneurs possess that serves them well in their quest for investment locales abroad are an inheritance from the country's history - entrepreneurial and business skills from the colonial days and the engineering and human skills form the more recent past - the post-independence years. These skills were locked up during the days of the license Raj that lasted for more than three decades until the the year 1991. The economic liberalisation measures let the genie out of the bottle. They liberated the entrepreneurs from the sort of dull and dreary chores of coping with rules and regulations and provided an environment for risk taking and facing the challenges posed by competitive markets in a globalised world.

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Conclusions

Outward FDI from India ,for reasons of history and the evolution of India's economic policies over the years, is unique and distinct from that of other emerging economies. This paper argues that the most significant reason for the growth of India's outward FDI is its inheritance of a gifted entrepreneurial class of businessmen. The paper discusses the roots of the entrepreneurial class and the economic and social factors that have endowed them with the sort of entrepreneurial abilities that firms in other emerging economies do not possess. The abolition of rules, regulations and restraints on entrepreneurship during the 1990s unleashed the animal spirits of the entrepreneurs and their desire to participate in the global economy through trade and investment. The sort of ownership advantages Indian firms investing abroad possess are in the domain of organisation, identification of investment and market opportunities and entrepreneurial talent that enables them to operate in international markets. These and other attributes identified in the paper cannot be easily quantified. Further research on this topic has to be based on case studies.

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Regional Inequality in FDI Inflows into Indian States

S R Keshava

If moderate FDI inflow states and low FDI inflow states improve the governance, bring transparency, remove corruption, provide basic infrastructure and make their state more dynamic and vibrant, the FDI inflow will boost the growth of the respective states

FDI is preferred over all other capital flows in the world. FDI is desired as it is a non-debt financial capital. FDI raises the investment in the host economy which by multiplier effect leads to increase in employment, income and savings. It provides latest machinery, state of art technology, skill, managerial know how and boosts export of manufactured goods and services in the host economies. It provides wide and varied choices to consumers as companies compete to provide quality goods to consumers. The competition ensures breaking of the domestic monopolies and bringing down the prices. FDI also contributes to the corporate tax revenue of the host economies.

The positive attributes of FDI are theoretically perfect, but when it comes to ground realities these are partially true. FDI sometimes may neither bring the latest technology nor create the promised employment. However, many economies are swayed over by the FDI's positive attributes. The Governments compete with each other by announcing numerous concessions and incentives to attract FDI. They not only provide land, water, power and other public utilities at subsidized rates, but also provide concessions in the form of tax holiday, rebate on undistributed profits, additional depreciation allowances etc., to attract the FDI.

But, despite the heavily loaded concessions and incentives by host economies, the FDI does not move equally into all the economies. There is a high degree of concentration of FDI inflows in few economies, which has led to high regional inequality in FDI inflows in the world. This is also true with Indian states as the similar kind of regional inequality is found in FDI inflows to them.

Favourable Key Determinants

The important reasons that lead to higher FDI inflows in few states and thereby increase the regional disparity can be found in the factors that influence investors in their investment decisions.

International Finance Corporation (2001) identifies size of market and its growth potential; political and economic stability; linkage and proximity to the other important markets; availability of trained manpower and wage structure; as well as Industrial and institutional infrastructure as the factors that influence FDI inflows.

Dunning (1993) studies shows that market size, labour cost, availability of natural resources, quality of physical and human infrastructure, incentives, macro-economic environment as well

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as institutional framework attract more FDI.

Indian Institute of Foreign Trade (1994) identifies (1) General law and order, (2) Infrastructure, (3) Congenial industrial relations, (4) Trained and productive workforce, (5) Availability of social infrastructure (6) Investor friendly environment, (7) Political stability, (8) Timely FDI clearance and approvals, (9) Minimal bureaucracy and (10) Incentives and concessions as key determinants to attract FDI.

Inter State Competition to attract FDI

Majority of Indian States with the belief that FDI will foster the process of growth made sincere attempts to woo FDI with a broad range of incentives. The incentives included **concessional interest rates from the banks**; various sales tax and **excise duty exemptions**; tax deferment schemes and reduced tariff rates for electric power and other utilities; reductions or exemptions from property taxes for specific period etc.

States often identified '**thrust**' industries and provided ready infrastructure for initiating the business which resulted in industrial, agro-processing and IT parks. States also initiated single window clearance system beginning from registration of land to other permissions. They also simplified the bulk of procedures to increase and ease compliance, reduce corruption and bring transparency.

FDI inflow into Indian States

Despite all these measures, there has been a wide disparity in the FDI inflows among the Indian states. The Indian states have been classified by the author as high FDI inflow states, Moderate FDI inflow states and Low FDI inflow states based on their FDI inflows from April 2000 to April 2013(Table No 1).

The FDI inflows in India are concentrated in six states namely Maharashtra, New Delhi, Tamil Nadu, Karnataka, Gujarat and Andhra Pradesh. They have attracted Rs 6,93,641 crores of cumulative FDI inflows during April 2000 to June 2014 which accounts for 70 per cent of the total FDI inflows into India. Maharashtra alone accounted for 30 per cent (Rs 3,20,281 Crore) of FDI inflows into India during April 2000 to June 2014. Mumbai in Maharashtra alone attracted most of FDI inflows in Maharashtra. Hence, Mumbai is not

Table-1

RBI's Reg. Office	State covered	2013-14 (April-March)	Cumulative inflows (April '00'- June '2014')	per cent age to total inflows
High FDI Inflow States				
Mumbai	Maharashtra Dadra & Nagar haveli, Daman & Diu	20,595	320,281	30
New Delhi	Delhi, part of UP & Haryana	38,190	214,820	20
Chennai	Tamil Nadu, Pondicherry	12,595	69,161	6
Bangalore	Karnataka	11,422	62,431	6
Ahmadabad	Gujarat	5,282	45,292	4
Hyderabad	Andhra Pradesh	4,024	43,817	4
Moderate FDI inflow States				
Kolkata	West Bengal, Sikkim Andaman & Nicobar Islands	2,659	13,532	1
Jaipur	Rajasthan	233	6,360	0.6
Chandigarh	Chandigarh, Punjab , Haryana, Himachal Pradesh	562	6,148	0.6
Bhopal	Madhya Pradesh, Chhattisgarh	708	5,595	0.5
Kochi	Kerala, Lakshadweep	411	4,875	0.4
Low FDI inflow States				
Panaji	Goa	103	3,660	0.4
Bhubaneswar	Orissa	288	1,926	0.2
Kanpur	UP, Uttaranchal	150	1,962	0.2
Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	4	352	0
Patna	Bihar, Jharkhand	9	228	0
Region Not Indicated		50,283	286,604	26
Grand Total		147,518	1,076,093	100 per cent

Source: Compiled from the data available on SEA website only the commercial capital, but also the FDI capital of India.

Maharashtra was followed by New Delhi with Rs 2,14,820 crore (20 per cent), Tamil Nadu with Rs 69,161 crore (6 per cent), Karnataka with Rs 62,431 crore (6 per cent), Gujarat with Rs 45,292(4 per cent) and Telangana, Andhra Pradesh with Rs. 43,813 crore (4 per cent).

The states which attracted the FDI from Rs.4500 crore to Rs.40000 crore during April 2000 to June 2014 are considered as moderate FDI attracting states. The moderate FDI inflow states are West Bengal, Sikkim, Rajasthan, Punjab, Haryana, Himachal Pradesh, Madhya Pradesh, Chhattisgarh and Kerala.

The states which attracted FDI Inflows below Rs 4500 crores during April 2000 to June 2014 are regarded as low FDI inflow states. The states in the bracket of low FDI inflows are Goa, Odisha, Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Bihar, Jharkhand.

The capital cities of states attracted majority of the FDI inflows of the respective state. It is clear that despite tax and other fiscal concessions, FDI inflow is concentrated only in few states, further only in few cities of these states. In order to probe the reasons for such an inequality, the macroeconomic indicators of these states are being analyzed.

Reasons for Regional Disparity in FDI

There are many reasons for regional disparity in FDI inflow

Table-2

States	per cent Population to Total Population	Density (Per. Sq Km)	Literacy (per cent)	University (per cent) (2011-12)	Colleges (numbers)	Enrollment Students (numbers)
High FDI Inflow States						
Maharashtra	9.29	365	82.91	44	4603	1955226
Delhi	1.38	11,297	86.34	25	184	278770
Tamil Nadu	5.96	555	80.33	59	2309	1482277
Pondicherry	0.10	2.598	86.55	4	83	35122
Karnataka	5.05	319	75.6	43	3281	1001473
Gujarat	4.99	308	79.31	37	1805	893648
Andhra Pradesh	7.00	308	67.66	47	4814	1847479
Moderate FDI inflow States						
West Bengal	7.55	1,029	77.08	26	899	944075
Rajasthan	5.67	201	67.06	45	2652	789479
Chandigarh	0.09	9,252	86.43	3	24	64510
Madhya Pradesh	6.00	236	70.63	33	2061	928939
Chhattisgarh	2.11	189	71.04	17	530	304381
Kerala	2.76	859	93.91	17	962	404121
Lakshadweep	0.01	2,013	92.28	0	3	410
Low FDI inflow States						
Goa	0.12	394	87.4	2	49	278770
Orissa	3.47	269	73.45	19	1089	510418
UP	16.49	828	69.72	58	4849	2564886
Arunachal Pradesh	0.11	17	66.95	3	26	16068
Manipur	0.22	122	79.85	3	79	33755
Meghalaya	0.24	132	75.48	10	61	41633
Nagaland	0.16	119	80.11	4	57	20026
Tripura	0.30	350	87.75	3	39	32800
Uttaranchal	0.84	189	79.63	20	395	294485
Assam	2.58	397	73.18	9	485	268451
Bihar	8.58	1,102	63.82	20	649	690776
Jharkhand	2.72	414	67.63	12	234	274450
India	**100**	**382**	**74.04**	**642**	**34908**	**15956428**

Source: Compiled from Economic Survey, Census report and Annual Report of HRD.

into India and the important among them are huge market, availability of skilled personnel, economic growth, good infrastructure, high economic freedom, and ease to do business environment.

What attracts FDI: Myths & Realities

FDI is attracted due to vast market characterized by population; availability of skilled personnel characterized by literacy, number of students enrolled in the higher education and availability of University and colleges in their respective states(Table No.2). Though some students go for education to other states and abroad, majority of the students enroll themselves in their own states.

FDI is attracted by vast market which is denoted by population of the country. In case of Indian States, the largest numbers of persons are living in Uttar Pradesh (16.49 per cent), but it has attracted very negligible FDI in the country. Similar is the case of Bihar (8.58 per cent) and Rajasthan (6.69 per cent).

But, the size of population has a positive effect in case of Maharashtra (9.29 per cent); the second largest populated state in India, is also the largest recipient of FDI in the country. The other states in high FDI inflows category are Tamil Nadu (5.96 per cent), Karnataka (5.05 per cent), and Gujarat (4.99 per cent) which are moderately populated states except Delhi (1.38 per cent) and Pondicherry (0.10 per cent).

The goods and services produced in one state can be easily made available in other Indian states; and hence the population of the state is not an important criterion to attract FDI in India.

The density of population reveals the thickness of population residing in one square kilometer. Higher the density, lesser is the probability of getting huge track of land for industries and other infrastructure projects. Delhi is attracting huge amount of FDI despite high density of 11297 people per square km as it is getting the industries in suburban areas of Delhi which comes under other states but recognized as National Capital Region. For example, Noida and Ghaziabad are in Uttar Pradesh, where as Gurgaon, Faridabad, Bahadurgarh are in Haryana. In case of other high FDI inflow states, the density varies from 308 to 555 people per square km. The density in the moderate FDI inflow states varies from 189 to 9252. The density is average in low FDI inflow states which varies from 17 to 1102.

It can be implied that the density of population has negligible impact on FDI inflows into the states.

Literacy is another important indicator which can be used as a proxy for knowledge. In high FDI inflow states, except Andhra Pradesh (67.66 per cent), all other states, are above national average of 74.04 per cent. In the moderate FDI inflow states except Madhya Pradesh, Rajasthan and Chhattisgarh all other states are above National average. In low FDI inflow states, Orissa, Uttar Pradesh, Arunachal Pradesh, Assam, Bihar and Jharkhand are below the national average.

In high FDI inflow states, there are 259 universities(40.3 per cent), 17079 colleges (48.9 per cent) and 74,93,995 students enrolled for higher education(46.9 per cent), where as in moderate FDI inflow states there are 141 universities (21.19 per cent), 7131 colleges (20.4 per cent), 34,35,915 students enrolled (21.5 per cent) and in low FDI inflow states, there are 163 universities (25.3 per cent), 8012 colleges (22.9 per cent) and 50,26,518 students enrolled (31.5 per cent).

Hence, it can be implied that the availability of skilled labour has a positive impact on attracting FDI inflows into the States.

Economic Growth, Infrastructure and FDI

The states with Higher FDI inflow have higher net state domestic product, per capita and better infrastructure measured in terms of railways, road length than the moderate and low FDI inflow states (Table No.3).

Moderate FDI inflow states namely West Bengal, Kerala and Madhya Pradesh are doing well in economic growth and infrastructure, hence gaining momentum in attracting FDI inflows. In low FDI inflow states except Goa, Uttaranchal and Arunachal, the percapita income is lower in other states. Railway lines and road length is higher in Orissa, Uttar Pradesh, Assam, Bihar and Jharkhand, but in relation to the size of the state, it is moderate.

There is a positive relationship between economic growth, infrastructure and FDI inflows. It further fosters growth in these states but widens the regional disparity.

Economic Freedom Index and FDI

The index of Economic freedom ranks the nations as well as states within the nation based on the number and degree of government regulations on wealth creating activity. Accordingly, in the overall economic freedom, (Table No. 4) Gujarat is ranked number one; in the regulation of labour and business as also ranked one, but in size of government it is ranked second and in legal structure and security it is ranked fourth. Even all the other high FDI inflow states are on top 11 ranks, whereas Tamil Nadu is ranked second, Andhra Pradesh is ranked third, Karnataka is ranked ninth and Maharashtra is ranked 11 in Economic Freedom Index. The biggest surprise is Maharashtra, which is ranked 11 in the Economic Freedom Index has attracted 30 per cent of the total FDI inflow into India.

In moderate FDI inflow states, Himachal Pradesh is ranked fifth, Madhya Pradesh sixth, Chandigarh eighth, Kerala tenth, Punjab thirteenth and West Bengal seventeenth. Hence FDI is gradually increasing. The economic freedom index is not satisfactory in low FDI inflow states.

Table-3

States	Net State Domestic Product 2012-13 (Crore) current prices	Percapita Net State Domestic Product 2012-13 (Rs.) current prices	Railway Line, 2011-2012 , (Kms)	Roads Length 2011-12 (Km)	Air Ports, International + Domestic (Numbers) 2011-12
High FDI inflow States					
Maharashtra	1239104	107670	5,602	4,257	3+9
Delhi	332521	192587	183	80	1+0
Tamil Nadu	671192	98550	4,062	4,943	3+3
Pondicherry	15887	122654	11	53	NA
Karnataka	466810	77309	3,073	4,396	2+4
Gujarat	584367	96976	5,271	4,032	1+7
Andhra Pradesh	678524	78958	5,264	4,537	1+2
Moderate FDI inflow States					
West Bengal	567594	62509	3,937	2681	1+2
Rajasthan	410834	59097	5,784	7,130	1+0
Chandigarh	232613	50691	16	24	1+0
Madhya Pradesh	333010	44989	4,955	5,064	2+4
Chhattisgarh	131796	50691	1,187	2,289	0+2
Kerala	309332	88527	1,050	1,457	3+0
Low FDI inflow States					
Goa	29888	161822	69	269	1+0
Orissa	210683	49241	2,461	3,704	0+7
UP	683651	33137	8,763	7818	1+0
Arunachal	11218	78145	1	2,027	0+2
Manipur	10489	36474	1	1,317	0+1
Meghalaya	15884	59517	NA	1,171	1+0
Nagaland	13682	65908	13	494	0+1
Tripura	22453	60963	151	400	0+3
Uttaranchal	99157	97528	345	2042	0+2
Assam	126149	40475	2,434	2,940	1+3
Bihar	287129	28774	3,612	4,106	1+2
Jharkhand	141644	44045	1,984	2,170	0+3
India	**8372744**	**67839**	**64,460**	**76818**	**24+64**

Source: Compiled from the data in Economic Survey and website of Airports Authority of India

Hence, the economic freedom index has moderate impact on FDI inflow into states.

Electricity and FDI

The availability of sufficient and quality electricity plays an important role in attracting high FDI inflow. The high FDI inflow states in India are also have high installed electricity capacity.

Maharashtra, which is the highest recipient of FDI inflows, tops the installed electricity capacity amongst the Indian state with 23.73 Gw in 2012-13. It is followed by Gujarat with 22.79 Gw, Tamil Nadu 15.60 Gw, Andhra Pradesh 13.79 Gw and Karnataka with 12.13 Gw which are also leading FDI inflow states.

Table-4: Economic Freedom Index 2013

States	Overall Economic Freedom Ratings		Regulation of Labour, and Business		Legal Structure and Security		Size of Government	
	overall	Rank	Area5	Rank	Area 2	Rank	Area1	Rank
High FDI Inflow States								
Maharashtra	0.42	11	0.43	6	0.16	17	0.68	3
Tamil Nadu	0.54	2	0.51	2	0.55	2	0.57	10
Karnataka	0.43	9	0.44	5	0.35	11	0.49	16
Gujarat	0.65	1	0.87	1	0.39	9	0.69	2
Andhra Pradesh	0.50	3	0.40	8	0.50	4	0.59	6
Moderate FDI inflow States								
West Bengal	0.35	17	0.29	17	0.14	18	0.62	5
Rajasthan	0.46	7	0.29	16	0.55	3	0.54	12
Madhya Pradesh	0.47	6	0.40	9	0.62	1	0.38	20
Chhattisgarh	0.44	8	0.39	10	0.47	5	0.47	18
Kerala	0.42	10	0.42	7	0.31	13	0.53	13
Himachal Pradesh	0.47	5	0.46	3	0.33	12	0.62	4
Punjab	0.40	13	0.19	20	0.43	6	0.58	9
Low FDI inflow States								
Odisha	0.36	15	0.33	12	0.26	14	0.50	15
UP	0.36	16	0.32	13	0.37	10	0.38	19
Assam	0.32	19	0.26	18	0.13	19	0.58	8
Bihar	0.31	20	0.30	15	0.12	20	0.52	14
Jharkhand	0.33	18	0.20	19	0.20	16	0.59	7
Uttarakhand	0.39	14	0.46	4	0.24	15	0.48	17

Source: Economic Freedom Rankings for the States of India, 2013

The Moderate FDI inflow states namely Rajasthan 9.86 Gw, West Bengal 7.57 Gw, Madhya Pradesh 6.32 Gw, Chhattisgarh 4.03 Gw, and Kerala 2.49 Gw are improving their installed electricity capacity. In Low FDI inflow states, except Uttar Pradesh (9.36 Gw) and Odisha (5.33 Gw) all other states are having less than 1 Gw installed electricity capacity.

There is a positive relationship between FDI inflow and the installed electricity capacity of the states.

Conclusion

70 per cent of FDI inflows are concentrated in six states which has further widened the regional disparities in India. The study has found that the density of population has negligible impact on FDI inflows into the states, whereas the availability of skilled labour, economic growth, good infrastructure, installed electricity generated has a positive impact on attracting FDI inflows into the states. But the economic freedom index has moderate impact on FDI inflow into states.

The state government should concentrate on improving the basic infrastructure rather than enhancing the concession to foreign investors. If moderate FDI inflow states and low FDI inflow states improve the governance, bring transparency, remove corruption, provide basic infrastructure and make their state more dynamic and vibrant, the FDI inflow will boost the growth of the respective states. ❑

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SPECIAL ARTICLE

Outdated Laws – A Dilemma for Non Resident Indians

Anil Malhotra

If we are to make access free to our foreign Indians, we must first give them a stable home, a happy family life and a comfortable society to live in. Indians laws can no longer exist in isolation. They must be reconciled with laws abroad

THE YEAR 2015 will mark 100 years of Mahatama Gandhi's return to India and the Pravasi Bhartiya Divas will be held in Ahemdabad on January 9, 2015 to commemorate this great centenary celebrated to welcome all overseas Indians to visit their home soil. The Prime Minister addressing a mammoth gathering at the US Madison Stadium, New York, opened India to its diaspora offering hassle free lifelong Indian visas to persons of Indian origin (PIO) card holders by merging the PIO and Overseas Citizens of India (OCI) schemes. Resultantly, Ministry of Home Affairs has issued a notification on September 30, 2014 to the effect that the PIO card shall be valid for life and the PIO card holder shall be exempted from police reporting and registration with the Foreigners Regional Registration Office. So far so good. But then, what will happen when the influx comes.

Whilst we laud these euphoric welcome gates, let us introspect on what we offer to our Non Resident Indian (NRI) brethren in terms of Indian laws concerning the family and society which envelops them at home. In a fast changing scenario of growth and development, it remains to be seen if these indigenous laws have kept pace with evolving societal needs which an NRI expects India to make if he were to come back to his habitat of origin. Thus, we have to first make a report card to evaluate our laws and their needs for his sake.

As per Ministry of Overseas Indian Affairs statistics, an estimated over 21,90,9875 non-resident Indians (NRIs) have inhabited, settled and thrived in almost 200 countries on the globe. Their actual numbers may be roughly close to 30 million. Undoubtedly, international Indians are a nationality by themselves. Thus, the dire need arises for a global law to govern their conflicts. The link and retention of their ties with their extended families in India and abroad has found expression in issues relating to immigration, nationality, marriage, divorce, forced marriages, inter-parental child removal, spousal maintenance, division of matrimonial property, inter-country adoptions, succession and inheritance, tenancy of Indian property and last but not the least, in surrogacy arrangements. Foreign Courts and overseas law practitioners are at sea attempting to resolve these problems for lack of any updated or amended Indian laws and reasoned interpretation of law on these new age subjects. Applicability of foreign laws, validity of judgments pronounced overseas and verdicts of Indian Courts which need expounding are consequential issues requiring interpretation and expert

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opinion. Personal laws governing global Indians, irrespective of the NRIs adorning foreign nationalities and overseas citizenships, are all more than five decades old. They do not meet or answer the test of time. Having not been updated or amended, these laws have outlived their utility and do not answer current day family problems in the international perspective. Clash of jurisdictions further perpetuates and compounds the problems which defy solutions resulting in breaking of homes and division of families. It is a complete split all the way.

The Background

A passport is a document which, by its nature and purpose, recognises a person as a citizen of the country granting it and is in the nature of a request to other countries for his free passage. It contains a recognition of the officially authorised agencies giving nationality to the citizen of the State issuing the passport upon necessary declarations being made to it by the holder. Therefore, a citizen is granted an Indian passport upon confirmation of Indian nationality. However, it can be impounded, revoked or cancelled under the Passports Act, 1967 upon certain prescribed conditions and following the requisite procedure under law. In *Satwant Singh Sawhney vs APO, New Delhi, All India Reporter 1967 Supreme Court, 1836,* the Apex Court had held that deprivation of a passport amounts to infringement of right to personal liberty under Article 21 of the Constitution of India and in *Maneka Gandhi vs. Union of India, All India Reporter 1978 Supreme Court 597,* it was reiterated that an order impounding a passport must not contravene any fundamental rights.

The Controversy

As debates continue in India about using laws made during the British Raj, Great Britain itself is in the process of repealing 38 enactments which were legislated between 1849 and 1942 relating to construction and maintenance of Indian Railways network during British Rule. However, we are still not following suit, though an exercise has been started to identify archaic laws to be weeded out by a process of spring cleaning being initiated by respective Government departments of cobwebs in their closet which are rarely disinfected or exposed to air and sunlight. Even though the Parliament has enacted The Passports Act, 1967, The Citizenship Act, 1955 and in 2005, created "*Overseas Citizens of India*", till date we still rely on The Passport (Entry into India) Act, 1920, The Registration of Foreigners Act, 1939, and The Foreigners Act, 1946, for various purposes. Most of such archaic legislations made during colonial rule are redundant, do not stand the test of principles of natural justice, confer unfettered, arbitrary and draconian powers, which seriously requires them to be taken off the statute book. But, we still carry on regardless.

Personal laws governing global Indians, irrespective of the NRIs adorning foreign nationalities and overseas citizenships, are all more than five decades old. They do not meet or answer the test of time. Having not been updated or amended, these laws have out lived their utility and do not answer current day family problems in the international perspective. Clash of jurisdictions further perpetuates and compounds the problems which defy solutions resulting in breaking of homes and dividing families.

A Wholesome Law

The Passports Act, 1967, which is a comprehensive and wholesome law relating to issue of passports and travel documents, provides a statutory safeguard procedure for variation, impounding and revocation of passports with rights of appeal to aggrieved persons against offences and penalties levied under this Act. However, the simultaneous existence of the Passport (Entry into India) Act, 1920 and The Foreigners Act, 1946, conferring absolute and unlimited powers to remove or deport a person from India summarily without following the due process of law, are an anathema and an anti-thesis to the rule of law in a democratic nation with ample scope for judicial review. Powers of house arrest, detention, solitary confinement and summary removal from India under these 1920 and 1946 Acts clearly infringe the fundamental rights of life and personal liberty guaranteed by the Indian Constitution. The reasons, therefore, to retain these pre-independence laws seems to be misplaced and defy fundamental freedoms.

Codified Law of Citizenship

The Citizenship Act, 1955, which is an Act to provide for the acquisition and determination of Indian Citizenship, prescribes under Section 9 that if any citizen of India voluntarily acquires the citizenship of another country, he shall cease to be a citizen of India. Section 9 of the Citizenship Act is a complete code as regards the termination of Indian Citizenship on the acquisition of the citizenship of a foreign country. In exercise of powers under the Citizenship Act, the Central Government has made the Citizenship Rules, 2009 to carry out the purposes of the Act. Under Rule 40 of Citizenship Rule 2009, the Central Government may determine the issues as to whether, when or how any citizens of India had acquired the citizenship of another country and in doing so, shall have due regard to the rules of procedure specified in Schedule III prescribed under the Rules.

Schedule III of the Citizenship Rules stipulates salient considerations as hereunder:

1. *Where it appears to the Central Government that a citizen of India has voluntarily acquired the citizenship of any other country, it may require him to prove within such period as may be fixed by it in this behalf, that he has not voluntarily acquired the citizenship of that country; and the burden of proving that he has not so acquired such citizenship shall be on him.*

2. *For the purpose of determining any question relating to the acquisition by an Indian citizen of the citizenship of any other country, the Central Government may make such reference as it thinks fit in respect of that question or of any matter relating thereto, to its Embassy in that country or to the Government of that country and act on any report or information received in pursuance of such reference.*
3. *The fact that a citizen of India has obtained on any date a passport from the Government of any other country shall be conclusive proof of his having voluntarily acquired the citizenship of that country before that date.*

Law Settled By Supreme Court

The Central Government is vested with powers under Section 9 (2) of The Citizenship Act, 1955, read with Rule 30 of The Citizenship Rules, 1956, as an exclusive jurisdiction to determine the question whether a person, who was a citizen of India, has lost that citizenship by having voluntarily acquiring the citizenship of a Foreign State. Further, under Section 9 (2) and Rule 30 above, mere proof of the fact that the person has obtained a passport from a foreign country is not sufficient to sustain an order for deportation or prosecution, unless there has been a decision of the Central Government under Section 9 (2) of the said Act. Moreover, the enquiry by the Central Government under Section 9 (2) of the said Act is a quasi- judicial enquiry. This proposition of law is well settled by the following judgements of the Apex Court in *i) State of A.P. vs. Abdul Khader AIR 1961 SC 1467; ii) Government of A.P. vs. Syed Md. AIR 1962 SC 1778 iii) State of U.P. vs. Rehmatullah AIR 1971 SC 1382.* Thus, this process of determination of nationality is well settled in law.

New Categories

1.2 billion Indians contributing 30 million non resident Indians in almost 180 countries on the globe has led to compromises on dual nationality which is otherwise prohibited under Article 9 of the Constitution of India and Section 9 of the Citizenship Act, 1955. Categories of "Persons of Indian Origin" (PIO) and "Overseas Citizen of India" (OCI) were carved out to confer limited benefits on persons of Indian origin. Therefore, PIOs and OCIs now enjoy limited rights in India and can enjoy residence rights in India without any visa, registration, sanction or other permissions. Moreover, under Article 5 of the Constitution, every person who has his domicile in India and was born in India or whose parents were born in India or who has been ordinarily resident in India for not less than 5 years preceding for commencement of the Constitution, shall be a citizen of India. Hence, inherent rights flow to presumption of Indian nationality by determination and interpretation of Indian law.

...a person could not be ordered to be deported or removed from India unless the Central Government takes a conscious decision upon holding a quasi-judicial enquiry that a person has ceased to be an Indian citizen. A foreign passport simpliciter will not label a person as a foreigner and determination of his nationality is his fundamental right. It is time our Parliament reconciles this concept of freedom, personal liberty and natural justice inter-twined with determination of nationality.

Determination of Nationality

Under the 1946 Act, disputes relating to questions of determination of nationality when a foreigner is recognised as a national of more than one country or it is uncertain as to what nationality is to be ascribed to a foreigner, such person may be treated as the national of the country with which he appears to be most closely connected. The 1920 and 1946 Acts permit removal or deportation of a person from India without providing any forum or procedure for determination of the question of the nationality of the foreigner or giving any statutory rights in this process. Tribunals to determine these questions are non existent. However, in the same breath today, now the Citizenship Act, 1955 and the Citizenship Rules, 2009 prescribe that if any question arises as to whether, when or how any person had acquired a the citizenship of another country, the Central Government shall first determine such question. The Supreme Court, interpreting these provisions, has held that a person could not be ordered to be deported or removed from India unless the Central Government takes a conscious decision upon holding a quasi-judicial enquiry that a person has ceased to be an Indian citizen. A foreign passport simpliciter will not label a person as a foreigner and determination of his nationality is his fundamental right. It is time our Parliament reconciles this concept of freedom, personal liberty and natural justice inter-twined with determination of nationality.

Debatable Question

In the social milieu today, international Indians qualify to be PIOs or OCIs. If they wish to reconnect with their homeland, they ought not be bundled out as foreigners by invoking the colonial provisions of the 1920 and 1946 Acts which offend fundamental freedoms. The Citizenship Act, 1955 itself creates harmony. The retention of a foreign passport today cannot lead to deportation and summary removal from India. Why then, do we need to retain the 1920 and 1946 enactments which were enacted to regulate the entry of foreigners into India in circumstances prevailing in 1946. This is a serious issue which must engage the attention of Parliament.

Need of the Hour

Today, persons of Indian origin have matters relating to matrimonial differences between spouses of global origin or nationality issues arising out of foreign domiciles. The desirable approach in the proper perspective today, therefore, would be to create appropriate forums or authorities within the legal system who would address such resolvable issues by granting opportunity of hearing and redressal. Accordingly, deportation or removal of a person to a foreign jurisdiction would be an abject surrender to a foreign dominion. Having resolved to be a sovereign, socialist, secular, democratic Republic, we in India, are very capable and competent of adjudicating our nationality issues to provide redressal for Indigenous Indians. Our post independence laws provide the solutions which our vibrant judiciary interprets to protect fundamental freedoms guaranteed under the Constitution of India. Hence, pre-independence laws in conflict with rights today must go off the statute book.

Besides discarding outdated legislations on the statute books, legislators seriously need to make new laws for the international Indians. Immediate concerns come in the arena of inter-parental cross border child removal when innocent children are made victims of spousal fights and their offspring is manipulated and used as trophies for settling personal disputes. Likewise, commercial surrogacy, a booming baby business in India, seriously needs a regulatory law with a effective legal mechanism to implement it. The trade of human smuggling and illegal immigration needs a central law for saving precious human lives of Indians who are exploited by unscrupulous agents in this deathly trade. Spousal maintenance rights and marital laws need a workup to be at pace with international family law obligations. International adoption of children needs to be governed by a brand new regulatory law. As of now, all the energy has been focused on commercial laws, giving step motherly treatment to laws which govern family and the society in India. Resultantly, nothing has changed for over 50 years. The thought must shift. Attention must be diverted. If we are to make access free to our foreign Indians, we must first give them a stable home, a happy family life and a comfortable society to live in. Indians laws can no longer exist in isolation. They must be reconciled with laws abroad.

Citizenship and Foreigners Laws at a Glance

The Registration of Foreigners Act, 1939 – An Act to provide for the registration of foreigners in India.

The Registration of Foreigners Rules, 1992 issued in supersession of the Registration of Foreigners Rules 1939 – Rules Made under the 1939 Act.

The Foreigners Act, 1946 – An Act to confer upon the Central Government certain powers in respect of foreigners.

The Foreigners Order, 1948 – An Order made under Section 3 of the 1946 Act for power to grant permission to depart from India.

The Foreigners (Tribunals) Orders, 1964 – An Order made under Section 3 of the 1946 Act to Constitute Tribunals to determine if a person is a Foreigner.

The Passport (Entry into India) Act, 1920 – An Act to take powers to require Passports of persons entering India.

The Passport (Entry into India) Rules, 1950 – Rules made under 1920, Act.

The Passports Act, 1967 – An Act to provide for the issue of Passports and travel documents to regulate departure from India.

The Citizenship Act, 1955 – An Act to provide for the acquisition and determination of Indian Citizenship.

The Citizenship Rules, 2009 – Rules made under Citizenship Act, 1955. ❑

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J&K DIARY

JAMMU KASHMIR AROGYA GRAM YOJANA LAUNCHED

This scheme was launched by the Ministry of Science & Technology under which the CSIR (Council of Scientific & Industrial Research) will select a thousand villages in Jammu and Kashmir for boosting the growth of aromatic plants with help from the local farmer community and their land owners. More than Rs 25 crores will be spent on this scheme along with technical aid by the CSIR team. The aim of this scheme is to identify the agricultural lands where the growth of aromatic plants can be encouraged, by educating and training the local farmers by a team of scientists of CSIR and Aroma experts from different parts of the country as the net profit from this exercise is expected to be Rs 1-1.5 lakh per hectare of land, which can be very economically beneficial to these local farmers. The IIIM (Indian Institute of Integrative Medicine) that has been conducting research on aromatic plants, some of which are of international export quality) will provide nine varieties of scientifically tested and commercially profitable plant saplings under the supervision of CSIR experts. The project will commence from Kathua district. Later, this scheme will be carried out in other states as well, as it is a part of the new initiative to be taken by the Ministry of Science & Technology. ❑

PG DILPOMA IN BIO-INFORMATICS AT JAMMU UNIVERSITY

Under the Innovative Programme Teaching and Research in Interdisciplinary emerging areas of UGC, the Jammu University will now offer one year PG Diploma course in Bio-Informatics that will serve for the needs of both the Computer experts as well as Biologists. This one year course will have two semesters and the selection will be through entrance test. This course will offer interdisciplinary knowledge in the field of bio-informatics, biosciences and Information Technology with its focus on Genome and Proteome Analysis. ❑

FDI in India: Policy Change and State Variation

Sojin Shin

...the substantial gap between states in attracting FDI shows the differing levels of state capacity in dealing with administrative hassles and societal opposition in the process of FDI inflows, even though many state leaders in India have competed for attracting more FDI to their states. Such disparate performances of the states in accumulating FDI inflows need to be explored by considering the different socio-political contexts of the states

FOREIGN DIRECT Investment (FDI) is defined as "cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy" (OECD, 2013). In other words, FDI to India is "investment by non-resident entity/person resident outside India in the capital of an Indian company" (GOI, 2014: 7). Not only achieving ownership of the assets, foreign investors can also influence decision-making in the management of the enterprise in the host country. With regard to these two conditions, namely, long-term investment and management participation, FDI is considered as helpful international capital to the host country compared to portfolio investment that has short-term characteristics. Despite the two opposed facets of FDI inflows—*benign* or *malign*—in its relationship with economic growth, many emerging market economies seem to obtain benefits from FDI inflows for their economic growth (Moran, 1998).[1]

For the past two decades, there has been a constant increase of FDI inflows in many emerging market economies such as India and China (see UNCTAD, 2010). China is currently the top prospect as a host economy and India is the third most common destination for transnational corporations (UNCTAD, 2013: 22). These two emerging market economies have actively attracted FDI inflows by changing policies and streamlining administrative procedures. The important reasons behind this pattern stem from the benign characteristics of FDI inflows: creating employment, offering capital goods and facilities, transferring technologies to promote production, improving the transparency of companies through investors' participation in management, and stimulating domestic investment in the host country, as some Asian developmental state models, i.e., South Korea, Taiwan, Hong Kong and Singapore, have shown how they could make beneficial use of FDI inflows for their economic growth. Furthermore, FDI inflows are considered to lower "the incidence of both currency crashes and IMF rescue loans" by maintaining a certain amount of foreign exchange in case of macroeconomic shocks (Krueger and Ito, 2000:7).

Policy Regime Change of FDI Inflows in India

In the case of India, economic institutions favouring FDI inflows have incrementally changed as the market has been integrated into the global market since the mid-1970s (Mukherji, 2014a). The policy regime of FDI inflows has developed through

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three differing stages: (1) anti-FDI (1969-75), (2) selective FDI (1975-91), and (3) pro-FDI (1991 onwards) (Shin, 2104). In the 'anti-FDI' period, the then government embarked on the nationalization of domestic banks in 1969 as a means of securing political support from the poor.In addition to this, Foreign Exchange Regulation Act (FERA) was introduced to regulate foreign currency. The key point of this Act was that the central government had a monopolistic role in dealing with foreign currency. For example, no state agency could participate in any activities regarding foreign currency except the Reserve Bank of India, the only authorized dealer by the central government.In the 'selective FDI' period, however, India's economy underwent a transformation toward easing regulations. The then government encouraged foreign capital to participate in Indian industry. The year of 1976 seems to be a turning point for India's economic orientation, as Frank (1977) put it:

(T)he state is being reorganized to serve the interests of big-and foreign-capital more efficiently and, relative to other economic sectors and political interests, more exclusively (p.473).

Such change became clearer when Rajiv Gandhi's government supported FDI inflows. Under the financial crisis originated from oil price rise and the world recession in the early 1980s, Rajiv Gandhi realized the potential benefits of foreign investments compared to external borrowing. He mentioned:

Our policy towards foreign investment is clear. It is not an open door policy. We permit foreign investment on our terms, in a wide range of sectors within certain percentage of foreign equity. These percentages can be relaxed in areas of high technology, or when there is a special contribution to exports. The external borrowing has expanded over the past several years, reflecting our growing needs and absorptive capability. But the flow of direct investment has remained very small. Yet direct investment has some advantages over loans. Loans have to be repaid whether investments are productive or not. Investment leads to outflows only after there is production and then too, only when there is profit. We can absorb a larger flow of foreign investment, with advantage to our economy, by speeding up procedures and removing unnecessary irritants (Gandhi, 1988)'.

Finally, the financial difficulties in the early 1990s brought new economic policies in the area of FDI inflows. A policy paper designed by Montek Singh Ahluwalia, who served as the Finance Minister from 1991 to 1996, became the original design for the economic reforms that were implemented in 1991. It suggested the increase of equity by foreign investors from 40 per cent to 51 per cent of the paid-up capital in domestic companies in many sectors.This policy change, which was encouraged by the balance of payments crisis, facilitated FDI inflows (Mukherji, 2014b).

One of the most significant policy changes in the area of FDI inflows in the pro-FDI period was the enactment of the Foreign Exchange Management Act (FEMA) in 1999. Compared to the FERA, which was introduced in 1973, the FEMA acknowledged some of the state agencies such as the Securities and Exchange Board of India (SEBI) as participants in dealing with foreign currency in addition to RBI. SEBI and RBI are mainly concerned with Foreign Institutional Investment (FII) and FDI inflows that are reviewed under an automatic route and do not need approval permission. Under the automatic route, foreign investors in various industrial sectors are allowed to embark on their business more easily than those in the other route.[2]Otherwise, the Secretariat for Industrial Assistance (SIA) under the Ministry of Commerce and Industry and the Foreign Investment Promotion Board (FIPB) under the Ministry of Finance examine proposals that are excluded from the automatic route described above. Thus, the role of FIPB has become more significant in the approval and disapproval of proposals since the initiation of FEMA. According to FIPB, it offers a single window clearance for the proposals through which foreign investors cut red tape by reducing time to submit same proposals to different state agencies for clearance. The current Prime Minister of India, emphasized effective governance and easy governance for the slogan of 'Come, make in India' aiming at India as the global hub for foreign investors.[3]He used the term of FDI as 'First Develop India' by emphasizing"three pillars of good governance—improving the ease of doing business by de-licensing and de-regulation, enabling infrastructure such as industrial corridors and opening up FDI in sectors such as defense, construction and railways.[4]Including manufacturing and infrastructure sectors, the government highlighted several sectors like aviation, biotech, chemicals, construction, mining, oil and gas, pharmaceuticals, renewable energy industries as the destination of FDI inflows. This initiative is clearly based on the government's strong belief in the benign effects of FDI inflows to Indian industry.

Differing Levels of FDI Inflows to States

In fact, the total FDI net inflows in 2011 were around US$32 billion that accounted for about 3 per cent of GDP (UNCTAD, 2013).Despite strong support from the central government,there has been substantial diversity in attracting FDI inflows at the state level.Table 1 shows cumulative FDI inflows to select states in India from April 2000 to June 2014. It presents substantial gap between provincial states in India in receiving FDI. For example, Maharashtra and Delhi have attracted FDI inflows substantially, by accounting for the half of total inflows to India. Several states like Tamil Nadu, Karnataka, Gujarat, and Andhra Pradesh have constituted the middle range group, while many other states like West Bengal and Odisha have taken a low level of FDI inflows.

A critical question is then raised: Why are some provincial states more

Table -1 Statement on RBI's Regional Offices Received FDI Equity Inflows (April 2000 - June 2014)			
RBI's Regional Office	**Main State Covered**	**Cumulative Inflows (Rupees in crores)**	**Percentage to Total Inflows**
Mumbai	Maharashtra	320,281	30
New Delhi	Delhi	214,820	20
Chennai	Tamil Nadu	69,161	6
Bangalore	Karnataka	62,431	6
Ahmedabad	Gujarat	45,292	4
Hyderabad	Andhra Pradesh	43,817	4
Kolkata	West Bengal	13,532	1
Bhubaneshwar	Odisha	1,962	0.2

Source: "Fact Sheet on Foreign Direct Investment (FDI)", Government of India, Department of Industrial Policy and Promotion. Available at http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_June2014.pdf (accessed on 10 November 2014)

successful in garnering FDI inflows and creating environment favouring large-scale investments while others are not, even though policy regime has consistently evolved toward pro-FDI inflows at the union level?

Interestingly, several states like Odisha, showing poor performance, have frequently witnessed strong opposition from society against FDI inflows. For example, Pohang Steel Company (POSCO), South Korean enterprise, has had a difficult time to secure lands against societal opposition in Jagatsingpur in Odisha. According to an executive committee that conducted an inquiry into the status of the Foreign Rights Act (FRA) for the POSCO project at the request of the Ministry of Environment and Forests (MOEF), the Government of Odisha disregarded a step to achieve consensus from local villagers before the land acquisition (Pingle, Pandey, and Suresh, 2010:3-5).A judge in the Madras High Court who closely followed the inquiry process highlighted that societal opposition in Jagatsingpur against the POSCO project substantially resulted from the state government's 'breakdown of law and order'.[5]Similarly,Tata struggled against societal opposition in acquiring lands for Nano factory in Singur in West Bengal. Even though Tata is an Indian domestic investor, its struggle for securing lands in West Bengal presented the weak capacity of state government in handling rehabilitation issues and fixing the land value in the process of land acquisition (see Chandra, 2008). As such, then, the differing state capacity in negotiating with the opposition groups of society and the level of effective governance pose a puzzle. In other words, the substantial gap between states in attracting FDI shows the differing levels of state capacity in dealing with administrative hassles and societal opposition in the process of FDI inflows, even though many state leaders in India have competed for attracting more FDI to their states. Such disparate performances of the states in accumulating FDI inflows need to be explored by considering the different socio-political contexts of the states.

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Endnotes

1 Moran (1998: 19) explained two contradictory facets—benign or malign—of FDI inflows with regard to development. The author presented that FDI may help a host country to break out of a vicious cycle of underdevelopment like low levels of productivity, low wages, low levels of savings, and low levels of investments. He noted that the foreign presence can enhance the market of host country to equip higher competitiveness, efficiency, higher output, and higher growth.

2 Interviews with Anupam Srivastava and Udit Srivastava in the Invest India of FICCI on 5 March, 2012.

3 Times of India, My definition of FDI is 'First Develop India', PM Modi says at 'Make in India' campaign launch, 25 Sep, 2014 (accessed on 11 November, 2014); The Hindu, FDI for Indians is First Develop India, says Modi, 25 September, 2014 (accessed on 11 November 2014).

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5 Interview in Chennai on 2 February, 2012. ❑

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India's Economic Ties with the Outside World: Looking Beyond New Delhi

Tridivesh Singh Maini

.....while some positive strides have been made in the context of state participation in economic diplomacy, there is a need to ensure that this is institutionalized, and the key impediments to making this process more effective are addressed.

WHILE THERE is no clarity on the precise role of states in India's ties with the outside world, there is a growing acceptance, albeit grudgingly, of the increasing role of state governments in the sphere of economic ties with the outside world – especially with regard to selling their respective states as investors destinations. There are debates of course with regard to the degree to which states should actually have a role in foreign policy – including the economic component of the same.

The Indian Constitution does not have any reference with regard to the role of state governments in economic ties with the outside world, though if one were to look at the Union List (Seventh Schedule, Article 246) it does make a mention of other foreign policy related matters:

1. Foreign affairs; all matters which bring the Union into relation with any foreign country.
2. Diplomatic, consular and trade representation.
3. United Nations Organisation.
4. Participation in international conferences, associations and other bodies and implementing of decisions made thereat.
5. Entering into treaties and agreements with foreign countries and implementing of treaties, agreements and conventions with foreign countries. <*http://www.constitution.org/cons/india/shed07.htm*>.

The political and economic situation of the country was very different then from what it is today, and India's increasing linkages with the outside world are much deeper and no longer restricted to Delhi due to a number of factors.

Relevance of the Issue

The role of state governments in economic ties with the outside world is going to become an increasingly important issue, due to the changes India is witnessing, especially the key role states are playing in India's economic march. It would also be relevant to point out, that one of the important thrusts of the current government seems to be on granting more freedom to states in their economic dealings with the outside world, apart from creating a competitive spirit amongst them for drawing foreign investment.

In his address at the Madhya Pradesh Investor's Summit held in Indore in October 2014, the PM said, "More than $100 billion of FDI is expected to flow

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into the country. It is up to the states to capitalize on the opportunity".

During the launch of the 'Make in India' Program at New Delhi in September 2014, the Indian PM had also emphasized on the need of centre and states working together." Development of states is important. States and centre have to work together to attract investment." "Development of states is development of India," .

As Chief Minister of Gujarat, the PM was a strong proponent of state governments being key stakeholders in commercial and trade ties with foreign countries. The strongest illustration of this is the point that he began the 'Vibrant Gujarat Summit' in 2003. It is not just industrialists who were present at the Summit, but even diplomats from a number of countries in Asia, Africa and Europe. The then Gujarat CM also led delegations to countries including Singapore, China and Japan.

The first signs of Chief Ministers becoming brand ambassadors for their respective states became evident in the 1990's. Economic reforms, India's changing world image as a consequence of strides made in the sphere of Information and Technology as well as the pro-active role of sections of the Indian Diaspora in hard selling India's economic prowess were some of the facilitative factors for the same.

In recent years, Gujarat has been at the forefront of strengthening ties with a number of countries. The first signs of Chief Ministers becoming brand ambassadors for their respective states became evident in the 1990's. Economic reforms, India's changing world image as a consequence of strides made in the sphere of Information and Technology as well as the pro-active role of sections of the Indian Diaspora in hard selling India's economic prowess were some of the facilitative factors for the same. The two key factors for the changing of course have been Federalism and Globalization, both very dynamic concepts. Jenkins (2003:600) in an article titled, "How Federalism Influences India's Domestic Politics of WTO Engagement"" (And is itself affected in the process) written for *The Asian Survey* has argued**:**

'There are many points at which globalization and the institutions of federal democracy intersect, both theoretically, and in the case of India. One reason why is that both federalism and globalization are terms that denote constantly evolving processes—globalization more obviously so, but federalism as well, in two senses: first, in that federal institutions are under a regime of continuous reform; and second, in the sense that the political relations that underlie center-state negotiations (often of a partisan nature) produce a systemic bias towards change, rather than stasis, within intergovernmental bodies'.

The first high profile instance of a Chief Minister projecting his state was Andhra Pradesh Chief Minister Chandrababu Naidu. Naidu first met Microsoft Chairman, Bill Gates in 1997 and impressed the latter with his vision. The result was that Microsoft Chairman set up the company's first India Development Centre in Hyderabad (now capital of Telangana and then capital of Andhra Pradesh), this helped in brandishing the image of a city as an IT hub, it was often referred to as 'Çyberabad'. Rudolph and Rudolph in an article titled "The Iconization of Chandrabu: Sharing Sovereignty in India's Federal Market Economy" written for The Economic and Political Weekly 'in 2001 cited the example of Naidu and then Karnataka CM SM Krishna in pitching their cities as potential hubs, to reiterate the point that the changes in the last two decades have compelled a number of states to compete with each other. The consequence of this aggressive hardselling by both leaders was not just the strides in the sphere of information technology, but also leaderships of other countries taking note of their strengths. US President Bill Clinton and his successor George W. Bush visited Hyderabad in 2000 and 2006 respectively, while former Chinese Premier Lee Peng visited Bangalore in 2001.

State Investors Summits

If one were to look at state investors summits, while the 'Vibrant Gujarat Summit' began in 2003, other states have begun to follow suit. This includes Bihar, Madhya Pradesh, Punjab and even Tripura. The nature and focus of these investors summits of course is very different. The Bihar Summit 2012 was especially interesting because then CM, Nitish Kumar invited the erstwhile PM of Nepal, Baburam Bhattarai *<http://businesstoday.intoday.in/story/bihar-global-summit-nitish-kumar/1/22544.html>*. The Bihar CM had also made the point that inclusive development should also connote developments of all parts of the country, and not just a few regions which are endowed with inherent geographic advantages.*<http://businesstoday.intoday.in/story/global-bihar-summit-2012-nitish-kumar-on-bihar-development/1/22561.html>*.

...the example of Naidu and then Karnataka CM SM Krishna in pitching their cities as potential hubs, to reiterate the point that the changes in the last two decades have compelled a number of states to compete with each other. The consequence of this aggressive hardselling by both leaders was not just the strides in the sphere of information technology, but also leaderships of other countries taking note of their strengths.

The focus in the Progressive Punjab Investors Summit, 2013 was on drawing investments from domestic private players. This was followed by a Pravasi (NRI) Punjabi Sammelan which was attended by a number of businessmen of Punjabi origin as well as Canadian politicians who hail from Punjab.

Apart from these summits, a number of Chief Ministers have been leading delegations to countries. Only recently, a number of CMs led a delegation to South East Asia. This included visits by the Chief Minister of Telangana (KCR Rao), West Bengal (Mamata Banerjee) and Rajasthan (Vasundhara Raje Scindia) to Singapore. In 2013, the Karnataka CM Siddaramiah visited China.

Apart from attracting foreign investments, state leaders have also been dealing with multilateral bodies including the World Bank for loans, they have also been taken on board by the central government in the context of negotiations with the WTO, especially on issues pertaining to agriculture.

While the role of state governments in India's economic linkages with the outside world have witnessed an increase, there is a need for making this more pro-active.

Making Economic Diplomacy more Effective

While the current government's aim of making India a manufacturing hub and having a cooperative relationship with the states is desirable, there are a number of shortcomings which need to be addressed not just in the context of policy, but also the mindset.

The first issue is of course, the clearances required from the government, and the role of export councils.The PM has spoken about streamlining, and also the need for states having export promotion councils which should be given more powers. This will need not just some radical policy shifts but also changes in mindset.

The second issue which needs to be addressed is the clear inequalities. While certain states get a chunk of Foreign Direct Investment, others are left out. Maharashtra, New Delhi, Gujarat and Tamil Nadu consistently bag a lion's share of the FDI, which includes their geographical location. Mukherjee in a paper titled 'Regional Inequality in Foreign Direct Investment Flows to India: The Problems and Prospects' makes this point:

'The top six Indian states, viz., Maharashtra, Delhi, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh together accounted for over 70 per cent of FDI equity flows to India during the period April 2000 to June 2012 reflecting distinct signs of FDI concentration at the state level'. (2011:100)

For this, there is no short cut but states which are laggards, need more assistance from states. What China has achieved to a large degree, and India has not succeeded is making backward states key economic destinations. While it is true that Bihar and Madhya Pradesh have grown at stupendous rates, there is a long way before they actually become investors, destinations. Other parts of Eastern India and the North-East need even more attention. During an address made to weavers in Varanasi, after laying the foundation stone of a trade facilitation centre, the PM spoke about the need for developing both these regions, stating that economic progress of the Western part of India was not sufficient for India and growth needed to be more equitable.

While the current government's aim of making India a manufacturing hub and having a cooperative relationship with the states is desirable, there are a number of shortcomings which need to be addressed not just in the context of policy, but also the mindset.

A study titled 'Determinants of Inter-State Variations in FDI inflows in India' (2013) by Chatterjee, S, Mishra, P and Chatterjee, B on the determinants of FDI identifies some of the important factors as success in drawing Domestic Investment, Transport and Communication Infrastructure.

The Central Government on it's part can ensure that priority should be given to more infrastructural projects and big ticket projects in the North East, whose strategic relevance is likely to increase especially in the context of India's ties with Myanmar. Even if such measures are able to lead to an increase in domestic investment, there is bound to be an increase in FDI as well according to a study *Determinants of Inter-State Variations in FDI inflows in India'* by Chatterjee, S, Mishra, P and Chatterjee, B.

'In an underdeveloped state, domestic investment may create infrastructure and market opportunities to encourage foreign investors for investing therein. Greater domestic investment into a state may also signal better business environment and thereby attract greater FDI inflows'. (2013: 104)

It would be pertinent to point out here, that the development of the North-East will not just help the seven sisters, but other states especially West Bengal. Calcutta could emerge as a hub in Eastern India, given its strategic location. Off late, the state has been making efforts to draw investors, and it has also been twinned with Kunming (capital of Yunnan province) in China which by aggressively marketing itself and organizing an Annual China -- South Asian Expo, has emerged as an important connector for China with Myanmar and established to strengthen connectivity with Myanmar via Bangladesh.

Third, it is time that state governments wanting to attract economic investment are permitted to have trade offices overseas. This practice has been common with the US, China and Japan allowing their provinces to have overseas trade offices. While the PM has made this point on numerous occasions, this needs to be well thought, so that it is effective and achieves the desired results. It is not essential for individual states to set up offices. In his research on overseas trade offices titled 'The location of US States' overseas trade offices', Andrew J Cassey (2012:5) argues 'the Council of Great Lake States administers overseas offices in Australia, Brazil, Canada, Chile, China, and South Africa. The councils member states—Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania, and Wisconsin— may opt in to any of these offices.

In certain instances, India can think of joint trade offices. This is especially important for countries where there are strong links through trade and commerce as well as diaspora. For instance, Gujarat and Tamil Nadu could set up joint trade offices in Singapore. While the former has strong economic linkages, the latter has strong historical linkages. Similarly, a number of states can set up joint trade offices in certain states of the US, since Indians from many states are present in states like California, New York, New Jersey and Texas. Apart from this, thought also needs to be given to trade offices in neighboring countries. North-Eastern states for instance should consider having offices in Myanmar and Bangladesh.

Finally, if national leaders attend Investors Summits of states which have not become important investors destinations, this may give the much required boost to their image and may compel investors to at least give some attention to these states. If not the PM, then the Minister of Commerce should attend Investors Summits organized by states – especially those in the North Eastern Region.

Conclusion

In conclusion, while some positive strides have been made in the context of state participation in economic diplomacy, there is a need to ensure that this is institutionalized, and the key impediments to making this process more effective are addressed. Apart from state and central government, a number of other players need to be taken on board to ensure that this process is fruitful are Chambers of Commerce, Think-Tanks and members of the diaspora. State governments in India should try and innovate new ways of marketing their states.

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DISSENT

Interest Rates, Inflation and the RBI: Time for A Change In Strategy?

Manoj Pant

There seems to be a general agreement that jobs in the manufacturing sector must revive if the demographic dividend is to be harnessed. Can the RBI play a constructive role in this? So far it has not. But the process will be painful and a start can be made by having a external fund inflow structure built up on inflows of Foreign Direct Investment (FDI) rather than FII funds

ANOTHER 'RBI season" has come and gone and the Governor has once again committed himself to controlling inflation. The signal? Do not expect any RBI commitment to lowering of the administered interest rates. The question is how effective can this policy be in India? More important, is it possible that an RBI overactive in traditional inflation control measures may have made matters worse? As usual, inflation rates will decline as the usual seasonal winter effect sets in. But come next year and the issue of inflation will once again arise. So it seems worthwhile to investigate two things: one, is the RBI's strategy on inflation working and, two, is it the right strategy anyway ? These are some of the issues we will deal with in this article.

But first, the theory and some facts. In general, the RBI can use general or selective measures to control inflation. The general measures are demand control measures which limit the money supply directly through Open Market Operations (reducing the bank deposits which is the base for liquidity and lending capacity of banks) or raising the cost to banks of lending money (by raising the bank rate at which commercial banks borrow from the RBI). The selective credit controls generally operate on the rate commercial banks can charge for priority lending (for example, for food credit). In general, the RBI seems to have used the bank rate extensively.

Does this matter? There is also a free market for credit so how does the RBI determine bank rate matter? It does, for two reasons. One, the bank rate determines the cost to banks of running out of liquidity (the so called repo rate) so that a high rate implies lower liquidity with banks and hence higher interest rates on loans. Second, a high bank rate also implies the reverse repo rate is higher so that the banks would rather lend to the RBI (through government bonds, Statutory Liquidity Ratio (SLR) etc) and hence the reverse repo rate effectively constitutes a lower bound on the interest rates charged to private borrowers. Some simple data is illustrative. In July this year, the actual SLR holdings of banks was around 27 per cent against the legal requirements of 22 per cent. Since the majority of banks also have to lend 40 per cent of their loans (without penalty) to the priority sector, the actual funds available for free lending are not only reduced but banks must charge a higher than market rate to maintain overall profitability. Again, the current

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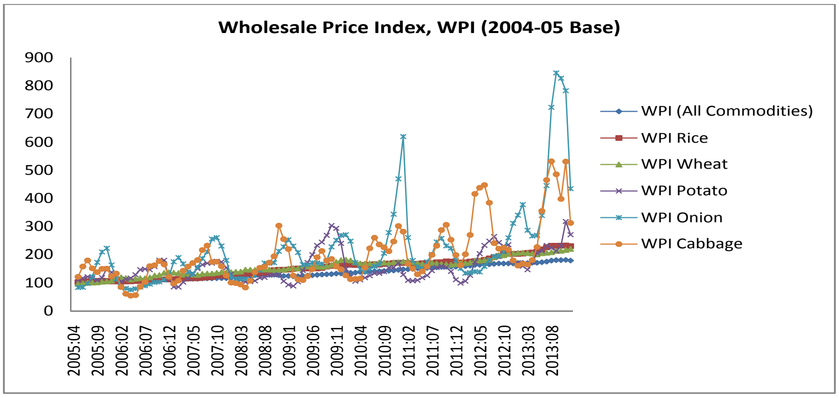
liquidity crunch in the banking sector is what one can only call RBI mandated " crowding out" of private sector borrowing.

We also know now that from 2008 till about 2013, the world was hit by a general recession. This affected developing countries like India somewhat less but there was still the impact operating through reduction of demand for exports in the rest of the world. What is more important is that we now also know that in this kind of "Keynesian" recession, measures to affect demand through changes in the interest rate are useless. As is known from elementary macroeconomics, in such a recession, measures to reduce demand via increase in the interest rate are useless: monetary policy is ineffective compared to fiscal policy. The rest of the world apparently knew this as interest rates in most developed countries were close to zero in this period while demand increasing measures (what Keynes called "pump priming") took the form of increased government spending. In the case of the USA, this was labeled "quantitative easing": the US Fed authorities bought up government primary securities thus putting more liquidity in the hands of the commercial banks. The RBI, on the other hand, had an opposite view. Thus, between October, 2005 and January 2014, the RBI changed the bank rate 37 times reducing it from about 9 per cent in 2005 to 4.75 per cent in April 2009 and subsequently raising it continuosly to about 8 per cent in January this year. The reason? Control of inflation.

The Nature of the Inflation

The usual measure of inflation is year on year movement of the WPI. As the graph shows, for wheat and rice, the secular upward movement is largely a function of the procurement prices which have increased steadily over the years in tandem with the overall WPI (though we are not implying any causality here). It is the fluctuating prices of vegetables shown in the graph which is the real story of inflation. Though not shown here, prices of fruits have also shown the same variability.

Graph-1



Primary articles (including fruits and vegetables) have a weightage of about 22 per cent in the WPI.

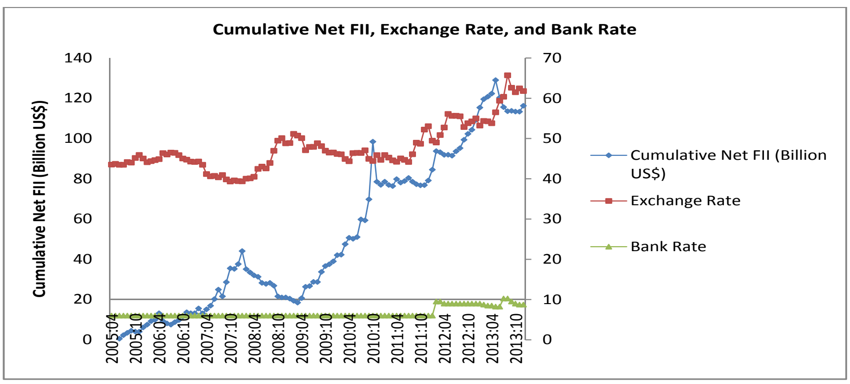
That is the problem. Public memory is short and tends to respond to spurts in the prices of fruits and vegetables which the media laps up. Yet, the dramatic drop in prices in the next period are normally not reported. Political pressure on the RBI then builds up to solve this "inflation" problem and it responds with the only visible option it has: raising (or not lowering) the bank rate. However, this extreme variability of prices of fruits and vegetables is largely a supply issue. These crops are grown by small farmers who have no minimum price guarantees (as in rice and wheat) or stocking facilties. The Agricultural Produce Marketing Committes (APMCs) then ensure that farmers must sell only in designated areas. As individual farmers respond to price spikes, there is a sudden surge in supply and prices drop dramatically. This has been seen to happen periodically in, for example, potatoes. Thus, the cyclical trend in prices shown in the graph above continues and the RBI measures have been largely ineffective.

So, to control inflation as we know it today, the only solution in the long run is creation of warehousing facilities for fruits and vegetables, modifying the APMCs and some kind of price support program in the states. In the short run some sort of automatic response of exports and imports based on domestic price triggers is essential.

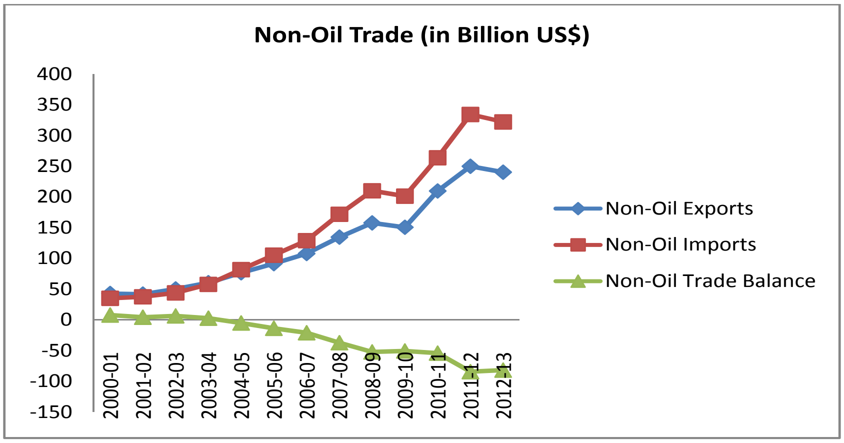
The RBI intervention has had unfortunate side effects. One, while interest rates in the rest of world were close to zero in the period 2008-2012, the continuous rise in the rate in India created a golden opportunity to FIIs for interest arbitrage. The accompanying Graph 2 is self explanatory.

In Graph 2, FII refers to flows of Foreign Institutional Investors which normally respond quickly to international interest rate changes. The pace of FII fund transfer seems to have accelerated as the bank rate (and

Graph-2



Graph-3



other interest rates) went up. This is seen in the sharp rise in cumulative net FII in Graph 2 especially after 2009. There is plenty of anecdotal evidence that banks in developed countries were encouraging NRIs in particular to borrow at zero rates to remit to India. At the same time, domestic investors (backed by sovereign Indian guarantees) were encouraged to borrow in world markets. As world interest rates stabilize, a reverse flow of FII funds can be expected unless Indian growth rate picks up dramatically.

Yet the RBI strategy was widely lauded in media circles. The answer seems to lie in the external trade sector. This is shown in Graph 3.

Looking at Graph 2 and 3, it is clear that in response to the growing trade deficit after 2004, the RBI let the exchange rate depreciate continuosly after 2004 in particular (see Graph 2). However, the real exchange rate did not change appreciably due to domestic inflation. So exchange rate changes had little impact on trade deficits. This was also not to be expected as the trade deficit was due to recessions in India's major export markets of the EU and the USA: the "Income effect" on exports tends to dominate the "price effect" of a depreciating rupee particularly in recessionary times. However, the FII inflows (due to increase in interest rates) gave some respectability to the balance of payments position. So, the end result was the use of interest rate to stabilize balance of payments.

This is where the problem in the RBI strategy lies. As any student of open economy macroeconomics knows, a strategy which uses interest rate(r) to stabilize the external balance is bound to fail. The optimal assignment is exchange rate(e) to external balance and interest rate to balance domestic demand. The RBI strategy neatly reversed this optimal assignment. It is now stuck with the typical dilemma: if 'r' is reduced and funds flow out the external balance would teeter as FII funds move out as quickly as they moved in. On the other hand, if 'e' is allowed to appreciate to reduce excess domestic absorption, increasing external liabilities (in foreign currency) would ruin domestic manufacturers, hit critical imports and put an end to the export efforts. As the phrase goes, the RBI is really stuck up the creek without a paddle.

The side effect of the rather disastrous RBI strategy is more worrying. High interest rates have made the manufacturing sector in India completely uncompetitive with the trading activity preferred to actual production. It may be argued that interest rates mainly affect production which is down because of the recession effect and not due to high interest rates. Yet, this is based on the assumption that consumption is not affected by the interest rates. However, the developments in consumer credit in the last three decades need some change in thinking. As bank consumer credit expands, particularly for big ticket items like housing and durable goods purchases, purchases by consumers are increasingly linked to the interest rate. As consumer durables are available under long term repayment schemes, the relevant cost to the consumer is not the outright purchase price but the cost of monthly repayments of loans. In the housing sectors, these instruments of purchase are called mortgages. This trend will only increase as India's demographic structure implies that more and more of these consumers are in the early life cycle of their earning career and hence can afford to pay off these " mortgage" loans. What consumers purchase today are not the durable goods themselves but the monthly "services" which these commodities provide. Yet, at an interest rate structure which begins at around 11 per cent even for housing loans and can go up to about 15 per cent for other loans, the cost of a loan for any consumer is prohibitive. The world (including India) is still in the grip of a Keynesian recession. In this scenario, it is necessary to revive not only production demand, but also the consumer demand. In fact, as Keynes taught us, reviving only one or the other will be ineffective. This is where interest rates can play a crucial role in India. It must be remembered that even in an inflation scenario of 8-10 per cent non-food inflation has generally remained below the 5 per cent level. More generally, prices of manufactured goods have remained steady and possibly even declined in real terms.

There seems to be a general agreement that jobs in the manufacturing sector must revive if the demographic dividend is to be harnessed. Can the RBI play an constructive role in this? So far it has not. But the process will be painful and a start can be made by having a external fund inflow structure built up on inflows of Foreign Direct Investment (FDI) rather than FII funds. Excessive reliance on FII funds to shore up foreign exchange reserves is faulty and has only led to drying up of loanable funds for domestic manufacturing. ❑

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Cleaning Rivers : A People Centric Approach

Monika S Garg

The impact was unimaginable. There was no need of a strict outside supervision; the (equally powerful and influential) locals were keeping a vigilant eye on the operations. The idea of involving the common public culminated in an affordable solution to serve the undeserved segments in addition to achieving the desired outcome of ' actually and effectively' cleaning the river

MISSIONS LIKE Swachh Bharat and Cleaning Ganga are capturing global attention. These efforts are laudable and ambitious. They might often require small steps to convert these into mass movements. I recall one such experience from 2005. The task was to clean a river falling in a VVIP constituency in Uttar Pradesh. It had got huge silt deposits in its bed, causing floods in scores of villages. Cleaning a river is an exercise fraught with several lacunae. Measurement of the work done and silt removed is difficult, post- completion assessment is near impossible, given the fact that one rain spoils any chance of getting it done. The 81.8 km long river required cleaning and desilting and the project cost was Rs 328 lakh.

The perception were such that no outsider dared to enter the area and bid against the tender (a global tender) floated. In all probability, the contract had to be awarded to a local man. The officials of the implementing agency were too 'scared' to enter the villages, a very sensitive area and check the Measurement Book. On top of all this, political upheavals were a fact of life. And inquiries by succeeding governments were a reality.

The Project Team was in a dilemma. They wanted a good enough solution that could get the job done. They studied the procedures and held deliberations with subject matter experts. It struck them that in general, the silt is fertile in nature and farmers would love to have the desilted material into their fields. But this aspect was, so far, unnoticed, inconsequential and unimportant. The team drew the local farmers' attention to this alluvial soil, 'real gold', and made them natural partners in the desilting process by announcing that the silt removed from the river bed would be distributed to the farmers (according to a formula arrived at after wider consultations). This simple announcement made them stakeholders in the process. With a view to raise awareness, the team held formal and informal discussions with various interest groups - beneficiaries, implementing agency, NGOs, village leaders, people's representatives and other identified groups. Each farmer became aware of the advantage and wanted to have the maximum possible silt for himself. The villagers became an interested group, having local influence and hence able to influence and persuade the contractor (another local man) to do his job well, removing all the desired silt from the bed.

The impact was unimaginable. There was no need of a strict outside supervision; the (equally powerful and influential) locals were keeping a vigilant eye on the operations. The idea of involving the common public culminated in an affordable solution to serve the undeserved segments in addition to achieving the desired outcome of ' actually and effectively' cleaning the river.

This is one example of process innovation. Several other initiatives must have been taken up by many others across the country. There is a need to document these simple, yet creative ways of solving complex problems in a resource efficient manner and finding opportunities in an adverse environment.

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POINT OF VIEW

FDI in Retail: A Threat or a Potent Source of Growth

Leena Ajit Kaushal

...the fear that large foreign firms are likely to put many of the small retailers- the so called Kiranas' out of business is largely unfounded. The retail sector in India is a dual market- the Kiranas' that cater to the vast numbers of people with low to middle incomes and the super market that cater to the rich. The two do not compete and there is no threat of the supermarkets encroaching on the market for Kiranas'

RETAIL SECTOR in India accounts for 14-15 per cent of GDP and is an attractive investment outlet for both foreign owned and Indian firms. In 2012, India relaxed its regulations on FDI in retailing and allowed 100 per cent ownership for foreign, firms in the sector. Foreign firms though were allowed to sell only single brands of products and were required to source 30 per cent of the products and materials from within the country. Later in the year 2012, foreign firms were allowed to sell multi-brand products but with the requirement that they own only 51 per cent of the equity. Further, the regulations required that foreign firms should invest a minimum of $100 million with 50 per cent of this amount specifically in infrastructure such as warehouses and cold storage facilities. In 2014, the newly elected government that endorses a liberal economic policy framework and increased inflows of FDI into the economy has prohibited foreign direct investment in multi-brand retail. This is a reaction to the fears of indigenous small retailers known as the "Kirana" stores that FDI may outcompete them in the retail sector. In short, the debate on the entry of FDI into retailing has swung full circle, with an acknowledgment of the contribution of FDI to growth and development, but with a bow to political opposition in a democracy.

India's retail industry with a CAGR of 10.6 per cent during the years 2010-2012 is estimated to touch 18.8 per cent by 2015, with a market worth $750-850 billion. India's retail sector consists of an organized and an unorganized sector. The unorganized sector includes traditionally family run, low cost retailers known as kirana shops, corner shops or convenience stores, the organized sector with a modern format includes supermarkets, hypermarkets, departmental stores and specialty chains. Organized retail accounts for 8 per cent of the total retail market and is expected to grow to 20 per cent by 2020 (Delloite,2013).Food retail trade in India accounts for 63 per cent of total retail sales , contributes 14 per cent to the GDP and 7 per cent to total employment (Guruswamy et al.,2005). Indian households spend 48 per cent of their income on food and beverages, which is the highest proportion of total expenditures in the world (McKinsey, 2007) and most of their purchases are confined to small shops.

The Agricultural Produce Market Committee (APMC) Act which came into existence in 1991 makes it compulsory for farmers to sell their produce to licensed merchants or middlemen at mandis set by state

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agriculture marketing boards instead of selling directly to retailers or consumers. These middlemen are virtually a cartel and the prices they charge the retailers reflect their monopoly of the retail market for food and food products. In addition, government taxes, interstate transport charges and agent's commission all add up to the high prices the middlemen charge the retailers. The profit in this system accrues to the middlemen at the cost of poor farmers and the final consumer.

In order to check the high and growing price level for food, the Government of India requested all the states to delist fruit and vegetables from the APMC act, but this measure alone is not enough to keep prices in check. Shops set up by independent players like foreign firms in the country could shorten the supply chain, rid farmers of middlemen and provide them with a large share of the final selling price. (Ghosal & Srinivas, 2011). Kohli & Bhagwati (2011) are also of the view that multinational retailers have potential to improve efficiency and performance of the distribution system in India.

The retail sector in a growing economy with a substantial middle class is attractive to large super stores including foreign owned multi-brand firms. The growth of the sector, however, is unlikely to outcompete the kirana stores mostly because of the low levels of income of a majority of the population who lack both transport facilities to reach supermarkets in the cities and refrigerators to store their purchases for long time periods. India as the saying goes is a large country with lots of poor people and a sizeable group of very rich people. There is room for both foreign firms and Kirana shops in the growing retail trade sector of the country.

Debate on FDI in Retailing

One of the significant policy initiatives in the liberalization era was the relaxation of rules and regulations governing FDI with qualifications attached, cited earlier. Surprisingly though, the new government has chosen not to liberalize multi-brand FDI in retailing on the grounds that it may outcompete the small firms and deprive many shop keepers of their livelihood. We argue that there is very little support for the government's fears and the economic case for allowing foreign multi-brand firms in the retail sector is strong. The case is based on the potential contribution of foreign firms to both efficiency and equity in the agricultural sector of the country. There are also the widely identified benefits to the consumers, mostly to the upper income groups at first but one that will reach the lower income groups in the long run. There are two major arguments to be considered here. The first is that the retail sector, at present, is a dual sector consisting of the organized one with large sized shops and the unorganized sector with a vast number of small shop keepers. It is a dual sector in every sense of the word, the two are mostly unrelated and each one has a distinct clientele of its own and the two do not encroach on each other. Secondly, FDI in retailing could be a potent source of both equity and efficiency for farmers as multinational firms' engagement with domestic resources could improve farming technologies.

The growth of the sector, however, is unlikely to outcompete the kirana stores mostly because of the low levels of income of a majority of the population who lack both transport facilities to reach supermarkets in the cities and refrigerators to store their purchases for long time periods. India as the saying goes is a large country with lots of poor people and a sizeable group of very rich people. There is room for both foreign firms and Kirana shops in the growing retail trade sector of the country.

Threat to the Kiranas-A False Fear

Role of FDI in promoting economic growth has been undertaken by several researchers (Bajpai and Sachs, 2000; Lensink and Morrisey, 2001). However there are also studies identifying the conditions necessary to promote economic development through FDI (Mellor 1976; Hansen, 2004). But for a developing countries like India, it is important to ensure that the FDI contributes to poverty alleviation along with economic growth.

There is a vast literature, with mixed responses, on the impact of super markets on small grocery stores. The study by Sobel and Dean (2008) denies any long run impact of Wal-Mart's entry on small retailers in US apart from the reallocation of small businesses resulting in expansion or contraction, whereas (Jia,2008; Basker 2005) report a decline in the number of small retailers. The study by Igami (2008) suggests that large supermarkets displace big and medium sized incumbents but improves the survival rate of small stores who are insulated by product differentiation due to store size and hence softens price competition (Anderson et al., 1992; Perloff and Salop 1985). Igami highlights the difference in consumer demands and shopping habits and suggests that stores with varying floor sizes cater different products to consumers. According to Balasubramanyam (2013), lower income groups neither demand nor afford international variety of products because of cost, reach and storage concerns unlike higher income groups.

Sprawling super markets are generally located in outskirts or suburbs of big cities to cope with the rising retail rentals and scarcity of prime locations. Retail rentals in prime locations have gone up by 50 per cent in the last three years and are 300-400 basis points higher than international rentals, accounting for approx. 40 per cent of total cost of retail sales (Delloit, 2013). It is observable that lower income group would not spend on commuting to super market for their daily needs or top-up shopping; rather a kirana shop or a vegetable vendor would be a convenient choice. India certainly has growing middle income groups but it accounts for less than 30 per cent of the population (Deutsche Bank, 2010), on the other hand, 21.9 per cent of population is below poverty line (Planning Commission, 2012) Hence both organised and unorganised retailers will co-exist in the near future as they proffer different value propositions to customers.

Study by Kohli and Bhagwati (2011) also argues that the expansion of large retailers is not at the expense of small kirana stores. Kirana shops are mostly family run low operating

It is by providing the farmers with appropriate technology, seeds and fertilizers that the foreign firms can enhance their profits and promote the welfare of poor farmers. In the age of information technology, foreign firms can reach the farmers through the internet and demonstrate the efficacy of new varieties of seeds and fertilizers to the farmers through slide shows and documentaries.

cost businesses where the home itself could be converted into a shop. These shops cater to a specific group of customers within the locality, whom they offer credit facilities, exchange and return options for their purchases and can advise them on their requirements. Prahalad (2008) observed that customers at the 'bottom of the pyramid' buy goods frequently and in small quantities because they can neither afford nor store goods due to lack of facilities at home, making nearby kirana shops convenient destinations for their daily needs.

Consumers have also the liberty to shop around and purchase fresh fruits, vegetables, milk from kirana shops or the nearly vegetable market. As suggested by Kohli and Bhagwati (2011), this is all a part of the rhythm of life in India and might not change in the near future. The joint family continues to exist in India, where the elders of the family, mostly retired from work, generally engage in daily shopping from the nearby corner shops where they meet other people of their age, chat with them and derive pleasure out of such outings. These corner shops also provide home delivery services which are bliss for people who can't commute to the shops.

A Source of Equity and Efficiency for the Farmers

Much of the debate on FDI in retailing in India is concerned with its impact on the Kirana stores. For the reasons cited earlier, this is a non-issue. The relevant issue is the contribution of the foreign firms to the welfare of the small farmers who are at the present, exploited rather than helped by the state appointed Mundis and middlemen in the retail sector. Although there is a substantial literature on FDI and its impact on poverty (Aaron, 1999; Bannister, 2001), there isn't much written on the mechanisms through which FDI can reach the poor in rural areas. Prahalad's work is an exception in this context. His thesis that foreign firms can reach the poor consumers (those at the bottom of the pyramid) with appropriate products at a price that can afford is well known. Prahalad emphasised the relationship of foreign firms with the poor as consumers, they can though do much more in assisting the poor farmers with production. It can be argued that the multinational firms are basically profit maximisers, they cannot be expected to shoulder social responsibilities such as alleviating poverty. Admittedly so, but they can contribute to social objectives through their pursuit of profits. This would be especially so in India with its vast number of residents in rural areas with millions of them living on the verge of poverty. It is the huge number of consumers whose demand for basic consumer products that would provide the markets that foreign firms seek. There is though more than mere markets that foreign firms can gain by their association with the low income consumers who are also producers. They are producers with low levels of technology, problems of access to inputs and also markets for their products. It is by providing the farmers with appropriate technology, seeds and fertilizers that the foreign firms can enhance their profits and promote the welfare of poor farmers. In the age of information technology, foreign firms can reach the farmers through the internet and demonstrate the efficacy of new varieties of seeds and fertilizers to the farmers through slide shows and documentaries.

There are foreign firms in India such as Hindustan Lever and PepsiCo that have collaborated with low income farmers to the advantage of both firms and farmers.

Conclusion

This paper has reviewed the debate on FDI in the retail sector in India. It has argued that the fear that large foreign firms are likely to put many of the small retailers- the so called Kiranas' out of business is largely unfounded. The retail sector in India is a dual market- the Kiranas' that cater to the vast number of people with low to middle incomes and the super market that cater to the rich. The two do not compete and there is no threat of the supermarkets encroaching on the market for Kiranas' for reasons discussed in the paper. The main thrust of the paper is to suggest that the foreign firms could be a potent source of technology and knowhow to the poor farmers and they can also provide an assured market for the produce of the farmers at a pre agreed price.

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MoU on Clean Energy Investment

A Memorandum of Understanding (MoU) has been signed between Indian Renewable Energy Development Agency Ltd (IREDA) and US Exim Bank with respect to cooperation on clean energy investment. This MoU is intended to establish a framework for cooperation in the financing of creditworthy entities for renewable energy projects and to facilitate the export of goods and services of U.S. origin or manufacture in India and various forms of collaboration between the IREDA & US-Exim Bank. US Exim Bank shall provide US $ 1 Billion medium and long-term guaranteed and/or direct dollar loans to finance U.S. technologies, products and services utilized during commercial development activities within the clean energy sector by IREDA. The sectors identified as priority areas of clean energy investment cooperation under this MoU are Solar (utility scale PV and CSP including solar tower); Wind; Hydro and any other Renewable Energy projects; Waste-to-Energy; Other areas of cooperation as agreed.

DO YOU KNOW?

E-Insurance Account

eIA stands for e-Insurance Account or "Electronic Insurance Account". The concept of e-insurance account is to protect the insurance policy documents of its policyholders in an electronic format. It allows access to the insurance portfolio of its policy holder at a click of a button through internet. Each e-Insurance Account has a unique Account number and each account holder is given a unique Login ID and Password to access the electronic policies online. A new e-insurance account can be opened by filling the e-Insurance account form by the account holder or policyholder and submit the required documents like Photo ID, recent passport size photograph, a cancelled cheque and an address proof to the office of Insurance Repository or Insurance company or authorized Approved Person (AP) appointed by Insurance Repository. So far, five entities have been granted the Certificate of Registration by IRDA to act as 'Insurance repositories' to open e-Insurance Accounts namely 1. M/s NSDL Database Management Limited 2. M/s Central Insurance Repository Limited 3. M/s SHCIL Projects Limited 4.M/s Karvy Insurance Repository Limited 5. M/s CAMS Repository Services Limited. An e-Insurance account can be opened within 7 days from the date of submission of application that is complete in all respects. After the account has been opened, a welcome kit with the details of how to operate the newly opened account, is sent to its e-Insurance account holder.

Electronic-Insurance Account offers many advantages of having the Insurance Policies in an electronic form. For example, opening a new account does not require any charges thus, free of cost. No risk of loss, damage or mutilation of a policy is involved unlike involved in paper policies. Moreover, the insurance policies in electronic form offer a safe custody and easy access of the account, whenever and wherever we want. The copy of the policy can be easily downloaded anytime by logging into the e-Insurance account. Policies of life, pension, health, general and annuity (that are issued by registered insurance companies with IRDA) can be electronically held under a single e-Insurance account which means that all the details of all the policies can be accessed from a single account. KYC documents are not required to be submitted again while purchasing new life insurance policies once they have been submitted at the time of opening the e-Insurance account.

Free Trade Agreement

The free trade agreement is an agreement under a set of rules between two or more countries under which the international trade is made easier, more accessible and more efficient by improving accessibility for the exporters and investors with respect to the markets of the other countries by eliminating any barriers to trade and ensuring that the existing access is maintained. There are two types of free trade agreements: namely, bilateral (between two countries) and multilateral (among a group of countries) that agree to abolish tariffs, quotas and preferences on most of the goods (if not all) among them. A country chooses an FTA with the countries that have complementary economical structures and not with those, which are competitive to its economy. FTAs, normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.). FTAs can also cover other areas such as intellectual property rights (IPRs), investment, government procurement and competition policy, etc. The Free Trade Agreement (FTA)can have some other names also like Closer Economic Partnership (CEP) or Strategic Economic Partnership (SEP) subjecting to the preferred parlance of different countries. Under the set of rules and regulations, the member countries build a secure trading relationship through close association of their regulators and officials who negotiate to bring focus on trading and provide a clear view of the desirability of the market to the participating countries's investors and businesses.

Recently, India signed the long-pending Free Trade Agreement (FTA) with the 10-member Association of South East Asian Nations (ASEAN) in services and investments. The agreement will ease the movement of professionals and boost investment with the other 10 nations namely Indonesia, Malaysia, the Philippines, Singapore ,Thailand. Brunei, Cambodia, Laos, Myanmar and Vietnam in the bloc for IT and other professional sectors like recognition, market access, national treatment, joint committees on services, review, dispute settlement and denial of benefits and domestic regulations. ❑

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BREAKING GROUND

Disruptive Innovation and the Adjacent Possible

Dev Nathan

India's generic pharmaceuticals have already shown the way to move products from low-income markets to high-income markets. Consequently, an important part of an innovation policy for India should pay attention to developing frugally engineered products. This, in turn, would require close links between research units and business enterprises

IN THIS short note, I will take up the question of disruptive innovations (Christensen, 1997) and place it in the context of the evolution of technological system.

What is a disruptive innovation? It is one that disrupts an existing market by, say, creating a new and lower price point, without necessarily being a new product. This would be what Christensen termed a 'low-end disruption', which targets customers not part of the high-end product. "Generally, disruptive innovations were technologically straightforward, consisting of off-the-shelf components put together in a product architecture, that was often simpler than prior approaches. They offered less of what customers in established markets wanted and so could rarely be initially employed there. They offered a different package of attributes valued only in emerging markets remote from, and unimportant to, the mainstream." (Christensen, 1997: 15)

A classic example of disruptive innovation is that of Indian pharmaceutical firms' development of the generic drugs' market. Based on reverse engineering and process, but not product innovations, this was initially promoted by the Indian patent law which provided for process but not product patents. After the WTO, however, Indian Patent law has been brought into consonance with TRIPS. Nevertheless, Indian pharmaceutical firms have continued to develop generic drug versions of products that go off patent after the usual 20-year patent protection. With the WTO being forced to take account of public health requirements in the developing world of low- and middle-income economies, international trade too is allowed in generic drugs. In classic disruptive style, the generic drugs, initially targeted at low-income markets have now spread to high-income markets, where there is a push to try to reduce the spiraling costs of medical care.

As a result, from remote markets, unimportant to the mainstream, generic drugs are now firmly established in the medical care systems of high-income countries. Some 40 per cent of America's import of generic drugs are from Indian companies. A measure of the importance of India's disruptive innovation in drug markets is the recent move of an American drug originator to enter into an agreement with Indian firms for generic versions of the drug. This is being done even while the original drug is under patent protection. This drug for treating Hepatitis-C, is of clear public health importance in the developing world. With this agreement, the drug costing about $1,000 a pill in high-income countries will be available

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for $1 a pill in low-income countries. By this agreement, the American company would hope to protect its high margin market in high-income countries, while accepting a much lower margin in low-income countries. The disruption of the drugs market by generics, one could say, is something the major pharmaceutical companies of the West, have come to write into their business strategies.

Generic drugs have proved to be an excellent case of disruptive innovation. They are technological innovations of the process type – not new products, but new processes for producing established products. There are other Indian process innovations too that are not yet disruptive, but could become so. The Mars Mission was cheap not just because Indian scientists and engineers cost less than those in high-income countries. It is reported that there was also an important process innovation involved that reduced the size of the rocket required to carry Mangalyaan into Mars orbit. India does not yet have a rocket as powerful as the American, Russian or Chinese ones. So, what ISRO did was to put the rocket in orbit round the earth to pick up the speed that a more powerful rocket would have generated. "… constraint is the mother of frugal innovation," as Terry Bresenham, CEO of GE-Healthcare remarked in another context (quoted in Govindrajan, 2014). The constraint of unreliable electricity and dusty conditions in rural India, led IIT-Chennai to redesign an ATM, using not spring but gravity loading of notes. This reduced electricity consumption by 95 per cent and eliminated the need for air-conditioning.

How can one situate such process innovations within a framework of technological evolution? Such an evolutionary framework helps one to see where India's current innovation strengths lie.

Situating Indian Process Innovations

Technological innovations extend the range of actually existing techniques. Innovation extends the actual into what Stuart Kaufmann termed the 'adjacent possible' (2000: 45). In the biological sense in which he originally defined the term the adjacent possible is the set of "…molecular species that are one reaction step away from the actual, but do not yet exist" (2000: 45).

In an economic sense, the actual is the set of techniques that exist. But there is also another set of techniques, those that do not exist, but are feasible with the existing set of knowledge. As Joel Mokyr characterizes the relation between knowledge and technique, "The mapping from the set of useful knowledge (omega) to the set of feasible techniques (lambda) must be one of the central notions of any evolutionary model of technology" (Mokyr, 2000: 54).

In a high value market, it may not be important to pay attention to unit price; the features of a product are likely to be more important. But in a low-value market, price and operational costs may be more important than certain additional features. Different market segments (high value, low value) may be thought of as parts of 'fitness landscapes' in the evolutionary sense.

But besides the set of feasible techniques, there is also the set of actually existing techniques, let us call it sigma. The set of feasible techniques minus the set of actual techniques (lambda - sigma = epsilon) would then correspond to Kaufmann's 'adjacent possible'. We could define the adjacent possible of the world economy as being the set of feasible techniques that do not yet exist, epsilon. Obviously the set of feasible techniques is constrained by the set of useful knowledge. But the actual techniques do not completely fill the space of feasible techniques, thus allowing for an expansion of the economy into the 'adjacent possible' even with the existing state of knowledge.

What, however, determines the movement into the adjacent possible, determines which feasible technique will be taken up? Here there is a two-fold determination. Initially, there is the hunch of the technologist and the firm, of what will work and what will be marketable. But, finally, there is a market determination of what feasible techniques actually hold their own in the markets.

What this means is that movement from the actual to the adjacent possible is not random. It depends on the decisions of innovators and firms on the basis of their understanding of needs and opportunities on market factors. It is very context dependent. It can also vary from one market to another, specifically from high-value to low-value markets. In a high value market, it may not be important to pay attention to unit price; the features of a product are likely to be more important. But in a low-value market, price and operational costs may be more important than certain additional features. Different market segments (high value, low value) may be thought of as parts of 'fitness landscapes' in the evolutionary sense. As a result, traits or techniques not selected in one part of the 'fitness landscape' may be selected in another part of the 'fitness landscape'.[1]

Thus, the manner in which the adjacent possible is approached would differ between firms operating in different markets. For an OECD market, it would not be necessary to design, say, a refrigerator that can work with a power break-down, but that would be important in the 'fitness landscape' of rural India or rural Africa. These fitness differences mean that firms operating in different market segments will approach the adjacent possible in different ways. The adjacent possible would be used by firms in low value market segments to find ways to reduce both product and operational costs, while making products with basic functions; while firms operating in high value segments would look for features that would add value to the product. This is the difference between the Chinese Xiaomi or the Indian Maxmobile and the American Apple approaches to smartphones.

Innovation and the Role of Consumers

Innovation of new products usually requires close and repeated interaction between producers and users, or, more accurately, 'lead users' (von Hippel, 2005). These lead users may be individuals, as, for instance, those who ride mountain bikes and have an idea of the varied qualities required in different terrains (Bijker, 1997). Or, they may be manufacturers or producers. For instance, Intel, the chip manufacturer regularly interacts with both software producers, such as Microsoft, and with computer manufacturers (Lester and Piore, 2004). This interaction is essential to both design and its subsequent marketing. Obviously economies in which interactions between product developers and lead users are more dense are better placed to develop new products as compared to economies where such interactions are substantially less dense. On this count, developed economies with more lead users are likely to fare better than emerging economies.

...firms operating in different market segments will approach the adjacent possible in different ways. The adjacent possible would be used by firms in low value market segments to find ways to reduce both product and operational costs, while making products with basic functions; while firms operating in high value segments would look for features that would add value to the product.

However, the global nature of businesses from the emerging economies puts the emerging economy firms in touch with developed market requirements. Besides, the development of the Internet makes interaction more dense, reducing the effect of distance. But one would expect that developed economies would still have a lead over emerging economies in this respect. Or, to put this in another manner – firms from developed economies, OECD economies, are more likely to be in touch with the market requirements of these economies. The R&D work could well be carried out in an emerging economy, but this would be by subsidiaries of the MNCs from OECD countries, For instance, the Korean Samsung has some of its major research units in India. These units are involved in high tech product development that has enabled Samsung to be the major competitor to Apple. For instance, the gaming, music, reader and social networking apps, available in Samsung smart phones and tablets, were developed by the Indian units (Fortune India, December 2011, pp. 124 – 131).

Where close interaction with high-income customers is required, corporations from the developed economies concerned would have a lead over those from emerging economies. But, with emerging economy corporations themselves operating in most or many of the developed economies, as is true of Indian IT companies or Huawei, the Chinese supplier of telecom equipment, corporations from the emerging economies are also in a position to reduce the existing gaps.

On the other hand, these differences between market types or fitness landscapes could mean that 'developing country firms may have an advantage in designing and making products for low-income markets as they have a better understanding of these markets…' (Staritz et al, 2011, p.5), But, as pointed out by Immelt (2009), products developed for low-income markets may come back to capture markets in high-income countries too. Not all market segments in a high-income country are high-income markets, there are also low-income markets in high-income countries. As a result, the low-cost Android-based smartphones, initially developed for markets in China and India are now capturing low-income markets in the US. Xiaomi, the Chinese low-cost smartphone is now changing the smartphone market. (Sampere, 2014).

Thus, frugally engineered products emerging from research in low-income, high volume markets may not remain confined to these low-income countries. India's generic pharmaceuticals have already shown the way to move products from low-income markets to high-income markets. Consequently, an important part of an innovation policy for India should pay attention to developing frugally engineered products. This, in turn, would require close links between research units and business enterprises.

Endnotes

1 See Mokyr, 2000, and Perkins, 2000, for use of the concept of 'fitness landscape' in the analysis of technological innovation

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Fast Tracking Japanese Investments

The Department of Industrial Policy & Promotion (DIPP) has set up a special management team to facilitate and fast track investment proposals from Japan. The team, known as "Japan Plus", will comprise representatives from Government of India and METI (Ministry of Economy, Trade and Industry), Government of Japan. An outcome of the recently concluded visit of the Prime Minister of India to Japan, the mandate of the "Japan Plus" team runs through the entire spectrum of investment promotion – research, outreach, promotion, facilitation and aftercare. The team will support the Government of India in initiating, attracting, facilitating, fast tracking and handholding Japanese investments across sectors. It will also be responsible for providing updated information on investment opportunities across sectors, in specific projects and in industrial corridors in particular. In addition, the "Japan Plus" team will identify prospective Japanese companies, including, Small and Medium Enterprises (SMEs) and facilitate their investments in India besides provide assistance to DIPP in undertaking regular benchmarking studies, identifying bottlenecks and areas of concern in sectors of interest to Japanese companies, and analyzing their impact on industrial development production in India. "Japan Plus" has been operationalized w.e.f. October 8, 2014. & can be reached at japanplus@nic.in and at k.toyofuku@nic.in

During the recent visit of the Prime Minister to Japan, the India–Japan Investment Promotion Partnership, as part of the Tokyo Declaration for India–Japan Special Strategic and Global Partnership was announced. Under this Partnership, Japan has offered to invest in India approximately 3.5 trillion Yen (US $ 33.5 Billion) by way of public and private investment and financing including Overseas Development Assistance, over the next five years. India has been rated as the top investment destination by JBIC for the long term. Japan is the 4th largest FDI contributor to India, with major interests in pharmaceuticals, automobiles and services sectors and accounts for 7.46% of total FDI equity inflows into India. As per the JBIC survey report on overseas business operations by Japanese manufacturing companies, 90% of the respondents voted "future growth potential of local market" as the top reason for India's attractiveness. India is an attractive investment destination for Japanese companies, with 1,072 Japanese companies having 2,542 business bases in India. Over the last decade, the number of Japanese establishments in India have increased by 11 times, reflecting the positive sentiments of Japanese investors for Indian market.

NORTH EAST DIARY

MIZORAM TO HELP POOR EARN LIVELIHOOD

The Government of Mizoram has sanctioned a project worth Rs.26 crore to better the livelihood opportunities of the poor and also to protect the eco–system. A Memorandum of Understanding (MoU) has also been signed for carrying out the 'Joint United Nations Initiative Project (JUNIP)'. This three–year–long JUNIP will lay emphasis on the food and livelihood security of the farmers, poor people, for protecting environment, maintaining the ecological balance and encouraging the sustainable use of bamboo, agriculture and forest produce. The project will focus on eliminating the role of middlemen between the market and the producers. Farmers and producers will also be educated on how to sell their produce in the markets and avoid the middlemen. Mizoram government will receive help by four specialised United Nations agencies – International Labour Organisation, Food and Agriculture Organisation, United Nations Development Programme and United Nations Industrial Development Organisation in the execution of this project. The UN will donate Rs.24.54 crore for the project and Rs.1.22 crore will be given by the state government. ❑

WORLD'S LONGEST DISTANCE MIGRATORY BIRDS FLOCK NAGALAND

The north-eastern state of Nagaland will provide sanctuary to Amur falcons, which are known to be one of the world's longest–distance migratory birds as they travel up to a distance of 22,000 km a year. Amur falcons (Falco amurensis) are a small raptor of the falcon family. They breed in south-eastern Siberia and Northern China before travelling to India and later over the Arabian Sea to winter in South Africa. Large numbers of forest protection personnel have been deployed in different lakes, water reservoirs and forest areas with cooperation from NGOs, civil societies, the forest department and wildlife division, to protect the birds.

The number of migratory birds flocking the state this year has already crossed the mark of one million. The birds started arriving earlier this month from Mongolia, Siberia, Northern China and Japan. They will stay in Nagaland, mostly in Wokha district and adjoining areas for around two months and then depart to South Africa and other countries including a three and a half day non–stop journey across the Arabian Sea that was tracked by the satellite and documented for the first time in the previous year. Mountainous state of Nagaland also scripted a success story for safeguarding these migratory birds with cooperation from the local people, the state Forest Department and NGOs, that also won accolades from the United Nations Environment Programme this year. To curb their killings, a massive campaign had been launched last year.The Pangti Village Council of Nagaland got national and international recognition for its amazing efforts. These Amur falcons are protected under the Wildlife (Protection) Act and trapping or killing of the birds is a criminal offence punishable with three years' rigorous imprisonment or a Rs.25,000 fine or both. India being a signatory to the Convention of Migratory Species, has to stop the indiscriminate killing and provide safe passage. Nagaland has been called as the "falcon capital of the world" because of its focussed and dedicated efforts and awareness in the last few years to shelter these migratory guests. ❑

DoNER FUNDS 17 PROJECTS

Out of the total Rs 120.41 crore earmarked for 17 projects that the ministry of DoNER approved , Rs 89.94 crore will be disseminated for the construction of road networks in the land–locked state and new PWD schemes under the scheme of Non–Lapsable Central Pool of Resources (NLCPR). The schemes that are currently under progress will get the priority and the new schemes would be commenced later.Till now, the state of Arunachal Pradesh has received the highest funds by the Ministry among all the north eastern states. Sixty per cent of the funds earmarked for Arunachal Pradesh have already been released by the Ministry. ❑

ASSAM GETS 30 NEW BLOCKS

To ensure better execution of the rural development schemes, addressing the inadequacies and better penetration till the grassroots level, the north eastern state of Assam will get thirty new development blocks.At present , there are 219 development blocks in the state. The proposed blocks are Nagaon – Malakhowa and Kalapani; Hailakandi – Matijuri; Morigaon – Jagibhakatgaon, Bhuragaon and Nellie; Cachar – Sonaborighat; Sivasagar – Thawra, Panidihing, Sukapha; Nagaon – Morajhar and Dagaon; Barpeta – Howli, BHatnapaiti, Jaipur and Jania; Kokrajhar – Athiabari–Patgaon, Salakati, Kasiabari and Parbatjhora; Chirang – Amguri, Manas, Runikata; Udalguri – Dimakuchi and Harisinga; Jorhat – Borholla; Darrang – Dipila. ❑

"Run for Unity" on Sardar Patel Jayanthi

Sardar Patel Jayanthi was celebrated on 31st October, 2014 with a "Run For Unity" in New Delhi Recalling his contribution to India's unity, the Prime Minister, mentioned the mantra of "Ek Bharat: Shrestht Bharat" and said that Sardar Patel gave us "Ek Bharat" (United India), and we should all work towards creating "Shrestht Bharat" (Foremost India). The Prime Minister referred to Sardar Patel Jayanti as an inspirational moment, and said that a country that forgets history, cannot create history. He said India's glorious heritage will always be an inspiration for its aspirational youth. He reminded the people that India's rich heritage can never be divided on ideological lines. Mentioning Sardar Patel's unique contribution to the freedom struggle, the Prime Minister drew a comparison of the Sardar's relationship with Mahatma Gandhi, to the relationship between Swami Vivekananda and Ramakrishna Paramahansa. The Prime Minister also spoke of Chanakya's vision of a united India, and said that the Sardar had, through his strategic foresight, converted that dream into reality.

Increased Funding for Decentralized Agricultural Research

Rajeswari S Raina, Viswanatha Reddy, K Kingsly Immanuelraj, Ramesh Kumar

Increased funding, even with new norms for publications, patents or farmers participation will not help, given the major impediment of centralization and consolidation of the research norms, contents and structures. Increased State government ownership of and decentralization of agricultural research to ensure location specific knowledge generation, access and utilization is necessary

An increase in research funding, to "1 per cent of the agricultural GDP" is a major recommendation to enhance the effectiveness and efficiency of agricultural research in India (Committee on Agriculture, 2014, p. 111). The Committee also notes that less than 50 per cent of the budget sought by DARE was allocated to it in the XII Five Year Plan; 23.27 per cent of this massively reduced allocation was sanctioned in the first two years of the XII Plan. But less than 80 per cent of that has been utilized (ibid, p.109). This brief paper points out that with its current centralized structure and research contents that cater almost exclusively to past capital formation in irrigation and chemicals, the faith that increased funding will enhance effectiveness is misplaced. The evolution of agricultural research reveals how government strategy of centralized target and control mechanisms is detrimental to agricultural research. Decentralization of agricultural research is imperative.

India's first agricultural policy was formulated in the 21st century; the policy goal is 4 per cent growth rate per annum. The country has no policy or strategic framework for agricultural research or extension thus far. The National Agricultural Policy (Government of India, 2000), has been critiqued for insufficient attention to strategies to achieve the policy goal – including levels of investment, public and private sector roles, improved irrigation and participatory management of water, forests, common lands (Chand, 2004; NAAS, 2003; Dhoot, 2006). An important recommendation emerging from these critiques is for 'a technology policy that ensures both that appropriate technologies are generated and that they are effectively disseminated to their end users' (Chand, 2004).

India's successful green revolution of increasing productivity response to major agri-inputs, ended in the 1980s (Bhalla and Singh, 2010); the green revolution is now being replicated in the Eastern states, and recent achievements of record production of pulses, cotton, coarse cereals, horticultural crops, livestock and fisheries have been lauded (DES, 2012). Yet, agricultural research is questioned for the fatigue of irrigation-chemical intensive production technologies and their negative environmental consequences (IFPRI, 2002; Vaidyanathan, 2010; Planning Commission, 2008; 2011). The evidence that recent agricultural growth rates have been driven more by price increases and not by productivity increases (Chand, 2014), and questions about why past successes in production have not had an impact on nutrition levels in the country

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(Gillespie et al, 2012; Haddad, 2011; Deaton and Dreze, 2009) are serious concerns about the conduct and content of agricultural research. There are crucial concerns about modern technology based private corporate sector growth in agriculture, access to and effective utilization of credit, rapid depletion of groundwater which irrigates more than 70 per cent of the total irrigated area, and increasing farmers suicides. Often weak extension is blamed for poor adoption of these technologies (see NDC, 2007). There are also allegations of inadequate rural infrastructure, illiteracy and poor risk bearing capacities among the small holders in particular, who cultivate over 84 per cent of the operational holdings and over 48 per cent of the net area sown in the country (ibid, Planning Commission, 2011). Increasing impacts of climate variability and change demand far more decentralized and location-specific research and extension to ensure adaptive capacities necessary for climate resilient agriculture (Raina, 2012).

Agricultural R&D in context

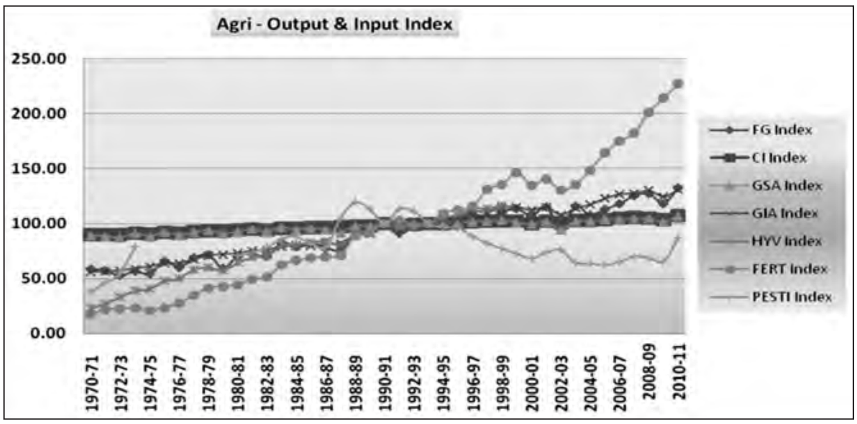
India's agricultural research system is almost entirely in the public sector. Functionally, the Union Government's Indian Council of Agricultural Research (ICAR) conducts research and some higher education and the State Governments' State Agricultural Universities (SAUs) undertake almost all the agricultural education, some research and extension education. Extension is located outside the formal research system, handled by the respective State Departments for agriculture, animal husbandry, dairy, fisheries, horticulture, and soil and water conservation. The SAUs are responsible for the conduct of research, education and extension education in an integrated fashion, to meet the knowledge and technology demands of each State. Given that extension in the SAUs is geared to imparting knowledge and technology to the extension staff of the Department of Agriculture, all the SAUs produce a 'Package of Practices' for all important crops in the State, with recommendations of appropriate embodied and disembodied technologies. Besides, there are Agricultural Technology Management Agencies (ATMAs) in every district, to manage and co-ordinate agricultural technologies and other information relevant to production problems.

Today, Indian agriculture is governed by the two key domestic policy planks of output price support and input subsidies (Ray, 2007; Vaidyanathan, 2010). A few years after the launch of the green revolution, and public capital formation (over 90 per cent in irrigation), farmers responded to the national strategy formulated for agriculture (Subramaniam, 1972; Vaidyanathan, 2010). They changed land use patterns, increasing cropping intensity and devoting more land to the cultivation of irrigated rice and wheat. The mid-1980s witnessed increasing private investments in irrigation (tube wells expansion – with over 70 per cent of irrigated cereal production depending on groundwater irrigation by the end of the 1980s), accompanied by increasing subsidies for tube wells, agricultural chemicals – fertilizers and pesticides and seeds. The first phase of the green revolution ending around 1983 (Bhalla and Singh, 2010)[1] witnessed the end of the rapid expansion of public capital formation in agriculture. Overall, the share of gross capital formation (GCF) in agriculture, in total fell from 20 per cent in 1980-81 to 10 per cent in 1999-2000 and 6 per cent in 2007-08, rising marginally to 10 per cent in 2009-10 and 7.2 per cent in 2011-12.

As agricultural growth became dependent on capital investments for input production and supply (mainly since the 1970s), the index of input use rose rapidly compared to the index of food production or agricultural GDP. The index of chemical fertilizer use has far outstripped the index of cropping intensity, irrigation and food grain output (Figure 1). There is concern about declining incremental response to unit input use (both chemical fertilizer and irrigation) (ICAR, 1998; Vaidyanathan, 2000 and 2010), increasing input costs and steep hikes in the incremental capital output ratio (ICOR) (Golait and Lokare, 2008) which places a massive burden of production costs on the small farmer (Chand et al, 2011).

The agenda-setting power of the twin policy planks, and the irrigated chemical intensive production investments have led to the lament that agricultural research with an 'exclusive focus on irrigated chemical intensive production technologies

Figure 1: Agricultural Output and Inputs – Key Indices (1970-71 to 2011-12)
(1990-91=100)

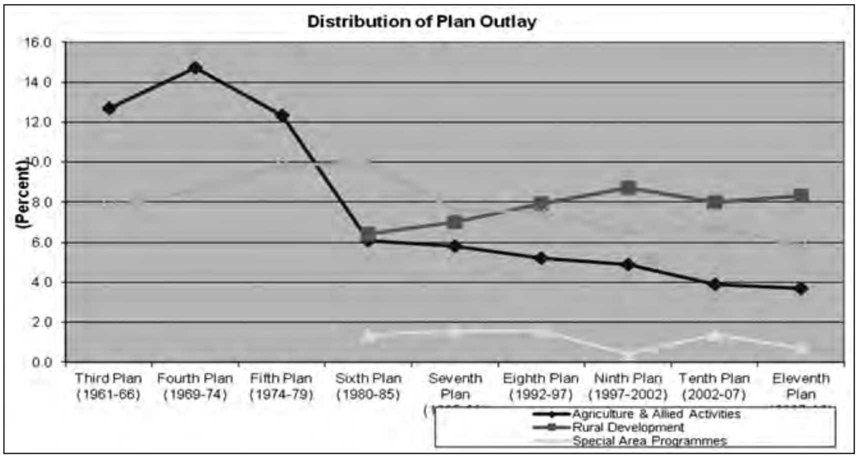


Source: estimated from DES various years with no concern about environmental sustainability is a problem', and that 'attempts to reform agricultural research to address these problems have been inadequate' (Planning Commission, 2008, p. 13).

Ideally, the demand for a national shift in research strategy from production enhancement to environmental and economic sustainability demands more plan investments in agriculture. Plan outlays have increased over time; but as capital formation tied to specific technologies became the norm, there was a gradual reduction in the share of plan expenditure devoted to agriculture (Figure 2). Non-plan investments are maintained, ensuring plan programme convergence with massive public investments made as capital formation *for* agriculture (Ministry of Agriculture, 2003). There is an erosion of capacities to conceive, design and implement policy instruments or programmes that address emerging environmental and production challenges.

Figure 2: Trends in Plan Outlay for Agriculture, Rural Development and other sub-sectors

(Percentage share of total plan outlay)



Source: Planning Commission and DES, various years, from Raina, 2014.

Centralization of Indian Agricultural Research

Recommendations to revisit the basic tenets of research for sustainable resource management and productivity enhancement based on a decentralized Agro-Ecological Knowledge Framework (Planning Commission, 2011a) demand an understanding of bio-physical and socio-economic contexts of agricultural systems. These capacities are distinct from the AEZs (Agro-Ecological Zones) classified based on bio-physical variables alone. They demand decentralized contextualised knowledge and application capacities. But centralized planning and execution is a feature of agricultural research structure and contents in India.

From less than Rs. 150 crores in 1960-61, the national public sector agricultural research spending (excluding education and extension expenses) has increased to over Rs. 3000 crores in 2009-10 (constant 2004-05 prices; Table 1). The agricultural production infrastructure and S&T systems till the 1960s, were predominantly handled by the State Governments.

Table 1: National Agricultural Research Expenditure (Constant price 2004-05)

(Rs. Crores)

Year	Total Union Government	Total State Governments and UTs	Total NARE
1960-61	56.27	86.77	143.04
1970-71	261.98	187.53	449.51
1980-81	470.65	239.63	710.28
1990-91	784.67	327.05	1111.72
2000-01	1443.95	512.55	1956.50
2009-10	2302.40	765.95	3068.35

Source: Estimated from CAG, various years (from Rajeswari, 1995 and Raina, 2014)

Note: Total CRE = RE from Ministry of Agriculture

RE from Ministry of Agriculture = ICAR research Payments + research account for agriculture + research account for animal husbandry.

Estimation of Union Research Expenditure, we have taken 97% of Union Government Expenditure on Agricultural Research and Education

Estimation of State Research Expenditure, we have taken 33% of State and UTs Government Expenditure on Agricultural Research and Education

National Agricultural Research Expenditure (NARE) = Total (97% of Union Government + 33% of State and UTs Government) Expenditure on Agricultural Research and Education

Table 2: Ratio of Union Government to State Governments and UTs Expenditure on Agricultural Research

Year	Ratio Union Government: State Governments+UTs
1960-61	39:61
1965-66	26:74
1974-75	59:41
1979-80	67:33
1990-91	71:29
1997-98	71:29
2006-07	75:25
2009-10	75:25

Source: Estimated from data same as above

Direct support from the Union Government for technology based programmes with public investments in irrigation (accounting for over 90 per cent), seeds, chemical fertilizers and agri-machinery also brought with it, an increasing centralization of S&T (Raina, 2011). The State Governments accounting for a major share in the 1960s dwindled to a minor share (less than a third) of the national agricultural research expenditure since the 1990s (Table 2).

In order to understand how this centralization has evolved, we classify the evolution of agricultural research according to major organizational and institutional changes in research at the Union and State Governments level (Table 3).

The ICAR was a Registered Society established in 1929. The need for modern technology to shift the production frontier, a felt need in the 1950s and 1960s, demanded that "far-reaching central authority and a clear line of command and execution alone could meet the challenge of growing more food" (The Agricultural Production Team, 1959, p. 6). Though there was a long history of diverse research organizations and interest groups, this 'pre-consolidation' phase was a process fraught with tensions, and a marked negative growth rate in research expenditure (Table 3)

The second phase starting in 1965 brought all research institutes under the Ministry, Commodity Committees, and some Provincial Governments under the consolidated control of the ICAR. It marked the end of the ICAR as a relatively autonomous entity and new powers for research funding and execution as a division within the Department of Agriculture of the Union Government. In 1975, with its new status as a full-fledged Department of Agricultural Research and Education (DARE), there was complete centralization of all aspects (funding and planning, execution, personnel recruitment and career advancement) of agricultural research. This included the protocols for research – as in the Co-ordinated Research Projects, purpose and content of agricultural science curricula taught in all SAUs and three deemed universities under the ICAR. This third phase continued well into the 1990s, and witnessed a steady expansion of research, though the growth rate of agricultural research expenditure remained lower than in the short transformative second phase (Table 3). The expansion phase continued unabated even when the scientific community realized that the green revolution gains were beginning to peter out (ICAR, 1998; Bhalla and Singh, 2010). It is the fourth phase of the consolidated, centralized NARS beginning in 1997), that continues till date. This phase saw establishment of the recent National Institute for Biotic and Abiotic Stress, with the onset of climate variability and change.

At the State level beginning with agricultural colleges and education of the colonial era, and intense debates about the nature of education for agrarian and rural India, the first phase saw the transfer of the Land Grant Model (in structure and not the philosophy of Land Grant, see Busch 1986), and the establishment of the first SAU in 1960. The Model Act for SAUs (1966) was implemented by the end of the 1960s with increasing State government and UT expenditure on research, but strengthening the ICAR's 'line of authority and control'. The second phase with the DARE deciding national co-ordination mechanisms, the central Norms and Accreditation Committee (NAAC) for curricula and guidelines for all SAUs, and uniform implementation of research and extension education, was

Table 3: Phases of growth of Agricultural Research Expenditure by Union and State Governments (% CAGR)

Important Phases	Year	CAGR
Union		
Pre- consolidation	1960-61 to 1965-66	-1.96
Pre- department (DARE) status	1966-67 to 1974-75	9.53
Centralized Consolidated Expansion phase	1975-76 to 1996-97	7.49
Centralized Consolidated phase	1997-98 to 2009-10	8.15
States		
Pre- Model Act & SAUs	1960-61 to 1969-70	7.69
Pre- NAAC & SAUs+ AICRP Phase	1970-71 to 1989-90	2.41
Centralization phase	1990-91 to 2009-10	4.58

Source: Estimated from data same as above marked by a low growth rate of State level agricultural research expenditure (Table 3).

The third phase beginning in the early 1990s comes with a demand for attention to agro-ecological zone-specific research. But under the centralized research system 'the ICAR (has) systematically decimated research capacity in the States' (Jha, 2002). Even States like Maharashtra and Uttar Pradesh which till the late 1970s used to account for a significant share (almost half) of National Agricultural Research and Education expenditure and did conduct several experiments on local production systems, decided to shrink their allocations to agricultural research. The relatively uniform curriculum for the agricultural sciences continued in the 21st century, despite the recent tendency within States, to break up existing SAUs into separate universities for agriculture, horticulture, animal husbandry, and fisheries. Though this "siloisation" of education and research is a logical conclusion of excessive centralization and overall lack of relevance to local problem contexts, this marks the anti-thesis of agro-ecological zone based research, farmer participatory research, farming systems research, and most importantly, research for climate change adaptation and resilience.

Let us recall that in the 1960s, the consolidation and centralization of agricultural research was a necessity, a design demanded by the agricultural strategy and its production technology trajectory accepted scientifically and politically. In the 21st century, this technology driven centralized R&D is not held in high esteem or accorded increased investments. An indicator of the decline in esteem is the budget cuts that the ICAR has faced in recent years, against proposed and approved budget allocations in the annual plans. The growth rate of total ICAR budget (plan and non-plan) has fallen in recent years (-3.90 per cent for 2010-11 to 2013-14) compared to the previous decade (9.16 per cent for 2006-07 to 2010-11) (estimated from ICAR Annual Accounts data). The rapid growth of the period 2006-07 to 2010-11 following the implementation of the Sixth Pay Commission salary scales, has now petered out. In the Indian economy, agricultural research is still as insignificant as it was when the green revolution was launched – the national agricultural research expenditure (excluding education expenditure) has moved from 0.037 per cent (1965-66) to 0.068 per cent (2009-10) of national GDP (estimated from CAG data, used in Table1, and CSO data). In agricultural GDP, the share of agricultural research expenditure has increased from 0.094 per cent (1965-66) to 0.448 per cent (2009-10).

The current system has been built carefully since the mid-1960s, consolidated and centralized to deliver a set of pre-determined technologies in the context of the twin policy planks of commodity specific output price support and input subsidies. If the government needs production impacts and environmental impacts (Planning Commission, 2008), it has to enable capacities for decentralized planning and programme formulation –preferably at the Block level (Planning Commission, 2011a) or further lower levels of administration like the Mandal level (as in Andhra Pradesh).

Though the 95 organizations under the ICAR are distributed across the country and many have regional stations in different agro-ecological zones, the central research agenda of irrigation-chemical intensive production is dominant (Government of India, 2008; Raina, 2011). This centralization of research design and the uniform dominant research content, meant to promote the Union government's strategy or policy framework for agriculture, ***contradicts the constitutional role*** assigned to Union and State Governments. 'Agriculture, including Agricultural Extension and Research, Protection against Pests and Prevention of Plant Diseases" is a Provincial subject (see Entry 14 of List II- Province List in the VII Schedule of the Constitution of India). Considering the Constitutional articulation and the excessive centralization of planned development (Ghosh, 1992), agricultural development schemes and programmes tuned to State level needs have been initiated and given some support during the XI Five Year Plan (2007-2012). The RKVY (Rashtriya Krishi Vikas Yojana) and the efforts to promote Comprehensive District Agricultural Plans (C-DAPs) are two promising policy reforms. But these need to be accompanied by decentralized, agro-ecological zone wise scientific research support, to understand and characterize the socio-technological production contexts and problems, ensure community participation to define problems, conduct participatory research and validate technologies to create locally responsive socio-technological systems.

Agricultural research that includes environmental impacts (Planning Commission, 2008) and economic and social impacts – especially household incomes and nutrition (Rao, 1982) and goes beyond narrow instrumental ends, demands changes in the structure, function and content of agricultural research. The current system has been built carefully since the mid-1960s, consolidated and centralized to deliver a set of pre-determined technologies in the context of the twin policy planks of commodity specific output price support and input subsidies. If the government needs production impacts and environmental impacts (Planning Commission, 2008), it has

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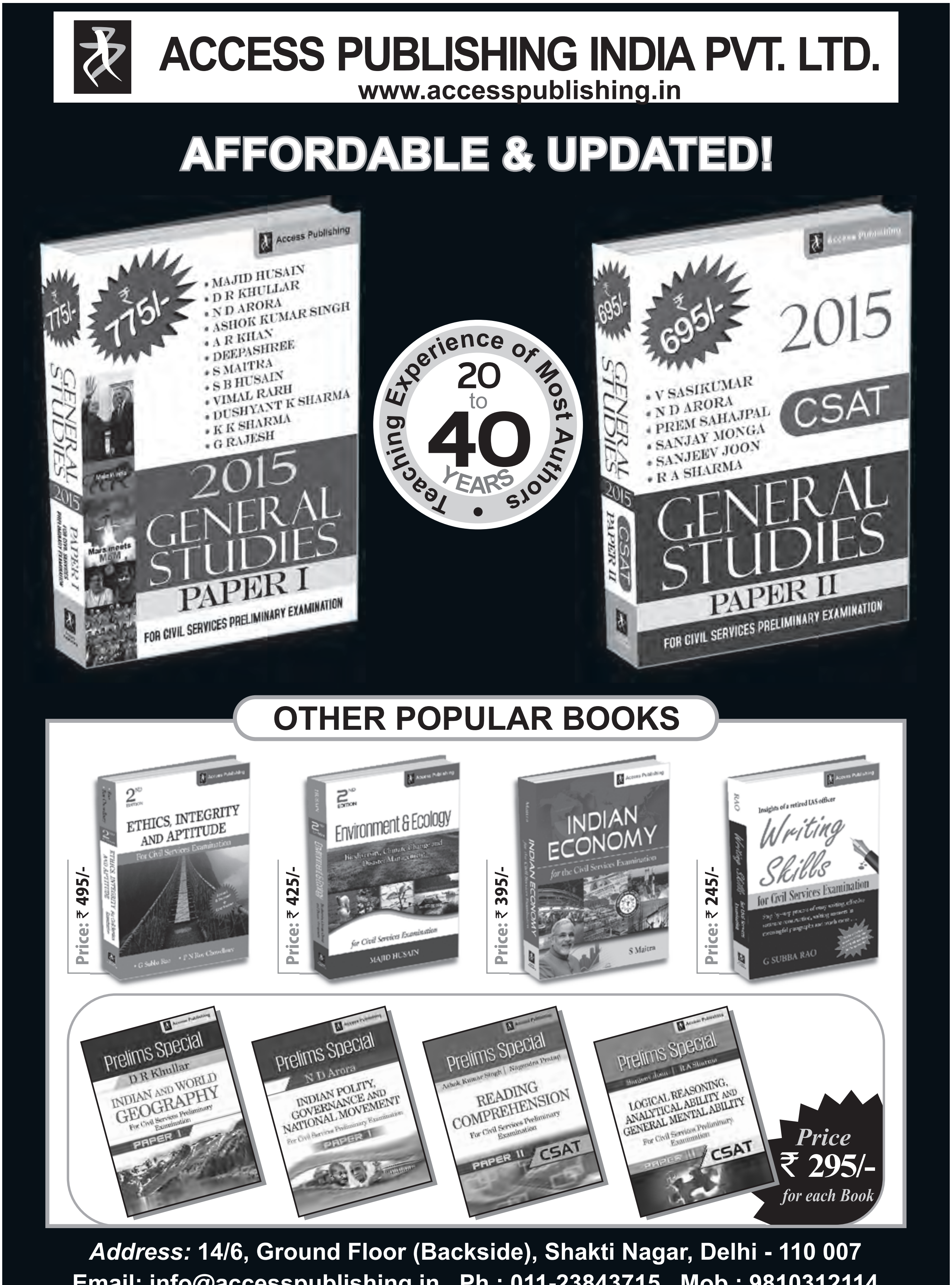

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Table 4: Share of different regions in Total Agricultural Research and Education expenditure by State Governments from 1970-71 to 2010-11 (in Current Prices, Rs. Lakhs)					
Year	South	North	West	East	Total
	per cent	per cent	per cent	per cent	(100 per cent)
1970-71	12	38	32	18	3493
1980-81	22	31	29	17	8814
1990-91	25	31	27	17	38684
2000-01	30	25	33	12	115322
2010-11	35	18	30	16	332644

Source: estimated from various issues of CAG reports

to enable capacities for decentralized planning and programme formulation –preferably at the Block level (Planning Commission, 2011a) or further lower levels of administration like the Mandal level (as in Andhra Pradesh).

Towards Decentralized Location Specific Research and Production Services

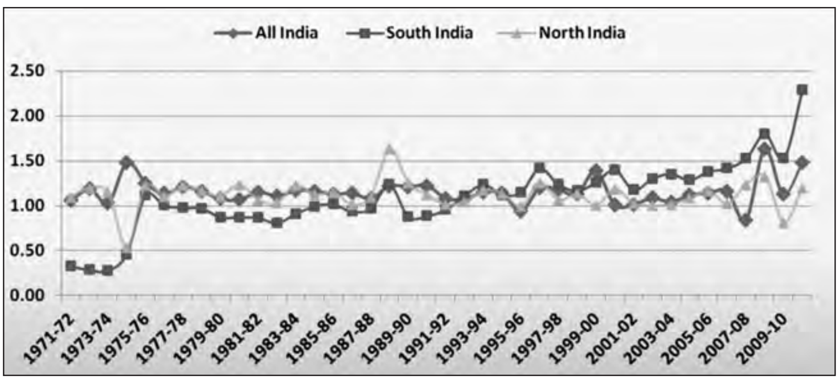
Centralization, meant to facilitate one research agenda, has been inimical to the advancement of knowledge, productivity growth rates, and further investments in research. Though the evolution of State level agricultural research (Table 3) happens in this context, the regions reveal differences in their support for agricultural R&D.

The Southern States now lead in their share in total agricultural research and education expenditure by State Governments in the country (Table 4). While the Eastern and Western regions have reduced their share in total State level research and education expenditure over time, the Northern States (accounting for over 70 per cent of the wheat production on average annually)[2] have seen a drastic reduction of their share in total State level agricultural research and education expenditure (down from a share of 38 per cent in 1970-71 to 18 per cent in 2010-11). Even within the ICAR, there is a depressing trend of less and less expenditure being devoted to actual research[3].

A precedence approach seems to be the norm for maintaining research and education expenditure, irrespective of the diversity of regional agriculture. At the national level, the average annual growth rate of agricultural research and education expenditure (including Union and all State Governments and Union Territories) has been around 1 per cent to 1.4 per cent per annum over the past four decades and more. (Fig 3).The Southern States have maintained a steady growth in agricultural research and education expenditure; clocking above 1.5 per cent per annum in the late 2000s. The impact of the consolidation and centralization of agricultural research is most evident in the Northern States, with a growth rate hovering around 1 per cent over four decades.

Figure 3: Annual growth rate of agricultural research and education expenditure by Union Government and State Governments in Southern and Northern India

(Per cent)



Source: CAG, various years (from Reddy, 2014)

Changing research priorities, with massive increase in research on horticulture, fisheries and livestock, is a key driver in the South Indian States – areas of research that are relatively under-funded at the Union level. Even within the centralized system, some states have used research and extension to their local advantage. For instance, during the XI Five Year Plan, Rajasthan used its RKVY allocation for supplying Monsanto's hybrid corn with a subsidy. But Maharashtra used its RKVY allocation for Integrated Pest Management (IPM) for four major crops using 28 data collection and monitoring centres across the State in collaboration with the National Centre for Integrated Pest Management. In one, the state-science relationship was one of centralized supply of technologies or embodied inputs. In the other, it was one of enabling local social, financial and natural capital to generate and ensure utilization of knowledge-based inputs.

Agriculture being a State subject, we must note that State Governments also invest differently in the social services (education and health care) and economic services (agriculture, rural development, and transport) among which are crucial production services and support for effective extension[4]. Going back to Maharashtra's work with NCIPM, the number of local jobs created for pest scouts, the co-evolution of local pest knowledge with modern genetics, agro-meteorology and insect physiology and the number of local enterprises established to cater to pest management inputs and advisories, are shaped by State level political and economic institutions. This goes unnoticed by parliamentarians, policy makers and scientists keen to increase funding for the centralized agricultural research system that has no wherewithal for linkages with or access to any such community support for research.

In conclusion, we ask if it is fair to blame agricultural research or any particular technology for the problems in agricultural production, productivity, malnutrition, environmental degradation, or overall technology fatigue (see, NDC, 2007; Planning Commission, 2008). The centralized research system must be congratulated for surviving against all odds. India's policy makers should celebrate the fact that it has continued to produce technologies for the supply driven ideology of the government. Our Parliamentarians, the Planning Commission and the State level Planning Boards do not ask *how* the resources are spent on agricultural research. The ICAR and SAUs have been designed and structurally fortified to spend their resources only on the dominant irrigation-chemical intensive production paradigm.[5] Increased funding, even with new norms for publications, patents or farmers participation will not help, given the major impediment of centralization and consolidation of the research norms, contents and structures. Increased State government ownership of and decentralization of agricultural research to ensure location specific knowledge generation, access and utilization is necessary.

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1 The phases of growth of agricultural output has been classified into three phases (i) initial period of the green revolution 1962-65 to 1980-83, (ii) the second phase of maturing of green revolution 1980-83 to 1990-93, and (iii) the post-liberalization period 1990-93 to 2003-06 (Bhalla and Singh, 2010) of expanding the same.

2 Note that rice, wheat, fruits and vegetables, pulses, cotton and sugarcane account for over 70 per cent of the research expenditure under the crop sciences. The crop sciences account for over 70 per cent of the research expenditure in SAUs and over 50 per cent of the research expenditure in the ICAR.(Bientemma et al, 2008).

3 The share of expenditure on salary and research under the ICAR is 55.5 per cent and 3.2 per cent respectively (ICAR budget book, 2012-13).

4 For instance, Sikkim, Goa and Puducherry spending between Rs.4000 to Rs. 8000 per capita for economic services (agriculture, rural development and transport) compared to Chattisgarh, Assam, West Bengal, Orissa, Punjab, Rajasthan, Madhya Pradesh, Jharkhand, Uttar Pradesh and Bihar spending far less than Rs. 1000 per capita on the same in 2011 (CAG, 2012). In the national revenue expenditure, economic services are crucial because they are predominantly rural and provide a range of production services crucial for agriculture.

5 A good example is the All India Coordinated Research Project (AICRP) on soil physics which was renamed AICRP on Soil Physical Constraints and Their Amelioration for Sustainable Crop Production (SCP), emphasizing its contributions to production. In 2001, the ICAR shut down this AICRP on SCP stating that it did not add to productivity (Raina et al 2006). That meso-level data on soil physical properties is crucial for climate adaptation and mitigation is now a painful realization. ❑

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WAY FORWARD

The burgeoning Informal Economy: Elements of a Strategy towards Formalisation

Anoop Kumar Satpathy
Kalaiyarasan A

...the informal economy in India is quite heterogeneous and diverse. The heterogeneity and diversity of the informal economy workers and units call for a tailored approach, while respecting fundamental principles and rights at work. Further, livelihoods and entrepreneurship opportunities in the informal economy needs to be protected and the costs of transition needs to be minimised whereas benefits to be maximised for facilitating gradual and successful transition from informal to formal economy

INFORMAL ECONOMY absorbs around a half of the global workforce and India is no exception. It occupies a pre-eminent position in the Indian labour market by accounting for nearly 93 per cent of the total workforce and contributing 50 per cent to the national income. It was initially expected that as diversification of economic activity takes place, the economy will move away from the one that is based on agriculture to an all-round transformation of non-agricultural activity that is footed on modern technology and newer and impersonal organisational forms. Such transformation implies large scale production structure and a rise in productivity. However, the persistence of backward technologies and traditional forms of enterprise only indicates that the informal economy continues to be the challenging reality of economic life in India. The informalization of work process is not restricted to informal sector only. In the era of globalisation and domestic economic restructuring, informalization has also become an integral component of the formal sector (Sudarshan and Unni, 2003).

Despite its phenomenal contribution to the national economy, decent work deficits are most pronounced in the informal economy. While lack of good governance could be one of the reasons for persistence and continuance of the informal economy, other important structural reasons such as huge dependence on family driven agricultural activities for livelihoods, geographical spread of enterprises and workers, low employment rate per enterprise, low education and skill base among informal workers, large number of own account and unpaid family workers and invisibility of informal workers should not be brushed aside. Hence, progress towards formalisation is central in achieving decent work for all which could happen only by putting in place an integrated and comprehensive strategy.

Given the background, this paper discusses about three key issues - definitional aspects relating to informal economy, size and characteristics of informal employment and lastly, outlines components of an integrated and compressive strategy towards formalisation.

Defining Informal Economy

Although the concept of 'informal economy' has been widely used since

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the last four decades, its exact meaning still eludes us and it has always remained a matter of great discussion and debate (Hussmanns, 1997). Earlier, in the absence of any standard definition, the size of the informal economy exhibited significant differences, both across and within countries owing to differences in scope, coverage and operational definitions. The unprecedented growth of the informal economy in recent years and flaws in existing definitional and data-collection methodologies underscored the need to overhaul and systematise the data collection practices, both at international and national level (Satpathy, 2004).

The first international initiative to define the 'informal sector' was made by the fifteenth International Conference of Labour Statisticians (ICLS) in 1993 (ILO, 1993). The ICLS defined the informal sector in terms of characteristics of production unit (enterprise approach). It defined the sector as comprised of a group of production units, which form a part of household sector as household enterprises that produce goods and services with the primary objective of generating employment and income. However, the 15thICLS definition was considered narrow as it didn't consider the characteristics of those who are engaged in it (workers approach). In other words, the definition took into account only production relations and didn't cover various dimensions pertaining to employment relationship. While the definition of the 15th ICLS still has some relevance, yet it failed to capture the various forms of informality and informalization that have since grown into significance in various parts of the world due to global competition and information and communication technology revolution (Standing, 1999). To capture all forms of informality, the 17th ICLS in 2003 coined the term 'informal economy, which is broader than the concept of informal sector and is used to indicate the conceptual whole of informality covering both production relationship and employment relationships (ILO, 2003). The term informal economy captures all *informal jobs* in the informal sector, formal sector and household sector and there is now a consensus on this definition.

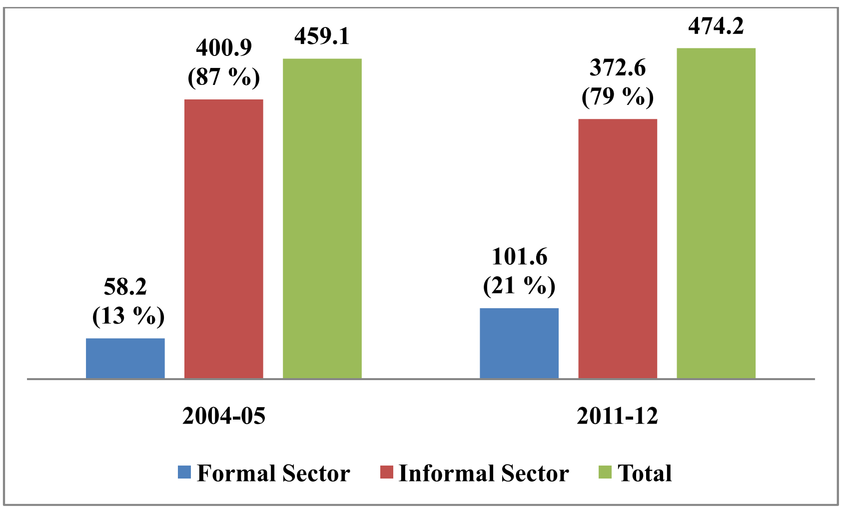
In accordance with the international definitions, the National Sample Survey Organisation (NSSO) for the first time inserted certain probing questions into the quinquennial labour force survey to directly estimate the size of the informal sector[1] in 1999-2000. Subsequently, the National Commission for Enterprises in the Unorganised Sector (NCEUS) defined both informal (unorganised) sector and informal (unorganised) employment (NCEUS, 2007).The commission defined the *informal sector* as comprised of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers. It defined the *informal workers* as comprised of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided to them by the employers. In this paper, the NCEUS definitions have been applied to the NSSO unit level labour force data to estimate the employment size in the informal sector and informal economy.

Employment Size and Trend

This section provides the size of and trend in the composition of employment in the informal sector and informal economy in India for two time periods i.e., 2004-05 and 2011-12.

As Figure 1 show, out of the total employment of about 474 million, nearly 373 million or 79 per cent workers are in the informal sector and the rest, about 102 million or 21 per cent are in formal sector in 2011-12. However, over time, there is a decline in the share of informal sector in total employment – its share in total employment declined from 87 per cent in 2004-05 to 79 per cent in 2011-12. The decline is not only in terms of percentage share, but also in terms of absolute decline in the numbers employed in the informal sector too. About 401 million jobs were in the informal sector in 2004-05 and it came down to about 373 million in 2011-12. In other words, between 2004-05 and 2011-12, about 28 million workers shifted from informal to formal sector. However, this shift in workforce from informal to formal sector need not be seen entirely as a sign of improvement

Figure 1: Size of & Trends in Employment in Informal Sector (in millions), 2004-05 and 2011-12



Source: Computed from NSSO unit level Labour Force Survey data, 61st (2004-05) & 68th round (2011-12) in the quality of employment as there are evident trends of informalisation of formal sector workforce as well.

Employment in the informal sector is just a sub-set of all informal employment in the economy, as the former does not include in its ambit the informal jobs which exist in the formal sector. Hence, this section discusses the size and trend in employment in the informal economy i.e., all forms of informal employment – whether it exists in the formal or in the informal sector – by applying the NCEUS 'informal workers' definition to the NSSO labour force data. Figure 2 shows that the size of employment in the informal economy at 438.8 million in 2011-12 is much larger than that of the employment in the informal sector (by 66 million). This *inter alia* suggests that these 66 million workers worked in informal jobs in the formal sector in 2011-12. Between 2004-05 and 2011-12, though there is not much change in the share of employment in the informal economy, in absolute numbers, such employment grew by 8 million. Another interesting fact which is to be noted is that, despite an increase in employment in the formal sector, the share of formal employment in total employment has remained stagnant during 2004-05 to 2011-12. The share of formal employment in total employment in 2004-05 was a mere 6 per cent and it has only increased marginally (to 7 per cent) in 2011-12. In other words, the increased number of jobs in formal sector has been accompanied only by an increase in the number of informal of workers within the formal sector.

Characteristics of Informal Sector

The informal sector is quite heterogeneous and it differs significantly from that of the formal sector in terms of their key characteristics. Low quality of employment and earnings, low level of education and skill base, small size of enterprises, near absence of social protection benefits, lack of governance and legal structures and low trade union density are some of the defining characteristics of the informal sector which are discussed in the following section.

Low Quality of Employment and Low Earnings

Low quality of employment and low earnings are the defining characteristics of informal sector in India. Workers in the informal sector though, form a part of the labour market in the sense that they are not openly unemployed, however, within the labour market, their nature and type of participation suggest that the quality of employment is not up to the standard and many of them are surviving by doing low paid work. The analysis of employment status suggests that the informal sector in India is predominately a self-employed sector – almost 64 per cent of the total informal sector workers work as self-employed (Table 1). However, a large segment within the self-employed are the own account workers (such as street vendors, waste pickers, and rickshaw pullers) and unpaid family workers including the least visible home workers who work under various sub-contracting arrangements which are mostly undertaken by women. The workers in these low quality and low earning vulnerable occupations, reel under the menace of poverty.

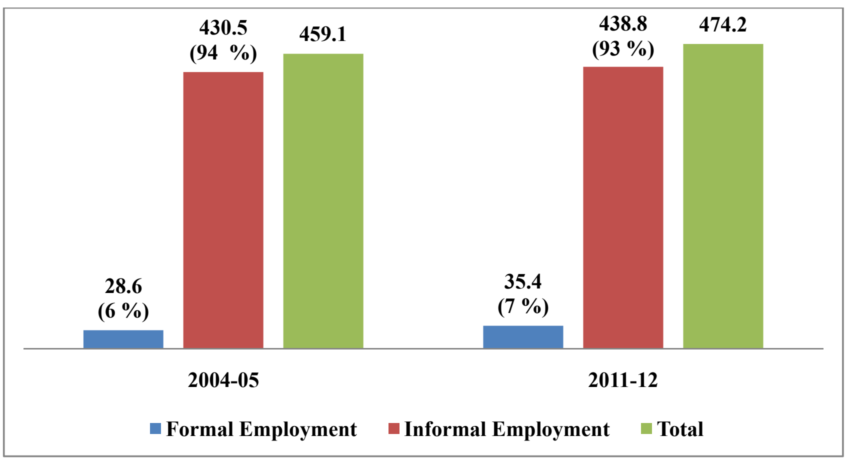
The wage paid workers (casual and regular) accounted for 37 per cent of the total informal sector in 2011-12. As in the case of self-employed, the wage workers are also not of a homogenous category. In the wage component, casual workers who lack job, wage and social security and work under harsh conditions predominate over regular well-paid workers which accounts for 30 per cent of all the informal sector workers in 2011-12. Causal workers participate in the informal labour market as contractual, temporary, part-time and daily-wage workers. They, along with the unpaid family workers probably constitute the most disadvantaged and vulnerable groups who face job insecurity due to unstable employment, lack of education and training and lack of voice to bargain for a reasonable wage needed for a decent living.

Given the preponderance of a large number of low paid workers in the informal economy, the NCEUS had estimated that as high as 79 per cent of the informal or unorganised workers belong to the poor and vulnerable group (NCEUS,2007).

Low Level of Education and Skill Base

One of the major structural weaknesses of labour market in general and informal labour market in particular in India has been the low education and skill levels of the bulk of our workforce. The NSSO 2011-12 data show that nearly 35 per cent of the working age population is either illiterate or has below

Figure 2: Size of &Trends in Employment in Informal Economy (in millions), 2004-5 and 2011-12



Source: Computed from NSSO unit level Labour Force Survey data, 61st (2004/05) & 68th round (2011/12)

Table 1: Workers in Informal and Formal Sector by Employment Status (in per cent)						
Employment Status	**2004-05**			**2011-12**		
	Informal Sector	**Formal Sector**	**Total**	**Informal Sector**	**Formal Sector**	**Total**
Self-Employed	63.9	8.2	56.9	62.7	12.2	52.2
Regular Salaried	6.4	68.6	14.3	7.6	57	17.9
Casual Workers	29.7	23.1	28.9	29.7	30.8	29.9
All	100.0 (402.1 m)	100.0 (57.8 m)	100.0 (459.9 m)	100.0 (375.4 m)	100.0 (98.7 m)	100.0 (474.1m)

Source : Computed from NSSO unit level Labour Force Survey data, 61st (2004-05) & 68th round (2011-12)
Note: Figures in the parentheses are in millions.

primary level of education, 97 per cent has no technical education and 88 per cent has no exposure to any formal or non-formal vocational training and skills development programmes. The illiterates have a very high probability of being poor or vulnerable – almost nine out of ten – and they are predominantly informal workers (NCEUS, 2007). In fact, informality decreases as one moves up the education ladder, and lowest for highly skilled workers, who enjoy greater job security and benefits in the formal economy (ILO, 2014).

Small Size of Enterprises

Another important characteristic of informal sector is the prevalence of tiny and small units (Table 2). Nearly 86 per cent of the workers in the informal sector work in enterprises employing less than 6 workers and remaining 14 per cent in enterprises employing 6 and above but less than 10 workers in 2011-12. Further, as compared to 2004-05, not much change has happened as far as employment size of the informal sector firms is concerned. In contrast, in formal sector, about 59 per cent of workers work in enterprises employing 20 or more workers and another 26 per cent in enterprises employing 10 or more workers but less than 20 workers. Lastly, overall, about 61 per cent of the workers still work in the category of less than six workers and only about 19 per cent of the total workers are in the enterprises employing 20 or more workers. Between 2004-05 and 2011-12, the pace of transition in the size of enterprises from micro/small to medium and large segment has been rather slow and in the process, it has created a huge missing medium enterprise sector.

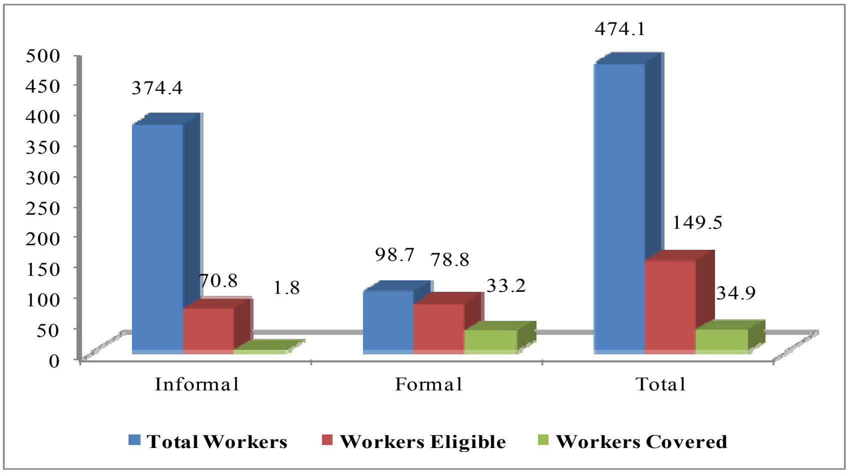
Absence of Social Protection

All workers with formal employment have, in principle, some social security coverage, but all workers in informal employment, which accounts for about 93 per cent of the total workers, are not covered by social security. Since, a large share of such workforce falls under self-employed category, they are excluded from social security coverage. For instance, social security coverage data in effect are collected only from 31.5 per cent (or 149.5 million) of the total 474 million workforce during 2011-12 (Figure 3). In other words, the rest 68.5 per cent workers are either working as self-employed or fall under sectors such as crop farming and cultivation, and hence, are outside the scope of the social security coverage. For instance, in informal sector, only 70.8 million workers are eligible to avail such social security benefits which is roughly just 18.9 per cent of workers in this sector. In contrast, about 78.8 million workers are eligible to avail social security benefits in formal sector, constituting about 80 per cent

Table 2: Workers in the Informal & Formal Sector by Enterprise Size (in per cent)						
Employment Size	**2004-05**			**2011-12**		
	Informal Sector	**Formal Sector**	**Total**	**Informal Sector**	**Formal Sector**	**Total**
Less than 6	91.9	11.0	74.6	86	8	60.6
6 & above but less than 10	8.1	5.1	7.5	14	7.8	12
10 & above but less than 20	0.0	27.6	5.9	0	25.6	8.3
20 & above	0.0	56.4	12.0	0	58.6	19.1
All	100.0	100.0	100.0	100	100	100

Source: Computed from NSSO unit level Labour Force Survey data, 61st (2004-05) & 68th round (2011-12)

Figure 3: Social Security Coverage of Workers (in millions), 2011-12



Source: Computed from NSSO unit level Labour Force Survey data, 68th round (2011-12)

of the workers in that sector. This is primarily because a majority of workforce in organised sector works as regular or casual workers, hence higher number of eligible workers.

Further, of the 149.5 million eligible workers in 2011-12, only 34.9 million workers were reportedly covered under social security benefits.[2] Of the 34.9 million workers, 33.2 million belong to formal sector and 1.8 million work to the informal sector. Hence, it is evident that only the formal sector is providing some sort of social security benefits to its workers, whereas in the informal sector, the coverage is negligible. Even in both the sectors, as employers do not contribute to the social security benefits, a large chunk of workers are excluded from the provision of social security benefits.[3]

Absence of Regulation and Unionisation

The Indian labour market is mostly unregulated. More than 90 per cent of the workers who largely belong to the informal economy are outside the regulatory net– either *dejure* or *defacto*, while most of the labour regulations cover the formal sector workers. A stricter compliance to conditions of work, wage and social security provisions could not be made due to absence of effective implementation of labour regulations thereby leaving the informal workers to fend for their rights at work. The matter is further complicated by the fact that only 2 per cent of the total workers and 5 per cent of non-agricultural workers are unionised in India.

The absence of regulation not only affects the workers but also the micro and tiny enterprises. These economic units are largely unregulated and do not enjoy secure property rights, hence these are deprived of access to both capital and credit. There is a need to bring these enterprises under the regulatory net and provide them access to finance, market, infrastructure, skills development and other such facilities to make them more productive and to expand their activities.

Elements of a Strategy towards Formalisation

As discussed earlier, the informal sector shelters those who fail to enter the formal labour market due to lack of education, skills and other forms of deprivation. In fact, lack of employment opportunities in the formal sector with better wages and working conditions as well as social security drives the workers to eke out at least some living, however precarious, with low wages and working conditions in the informal sector. In similar measure, informalisation of employment relations in the formal sector is now recognised and also a matter of equal concern. The informal employees in the formal sector suffer from most of the labour standard deficits that the workers in the informal sector suffer from. Therefore, recognition of this reality is the precondition for devising an efficacious strategy towards formalisation.

For a long time, the Government has taken a series of measures in the form of legislations, policies and programmes to gradually formalize the informal economy. For instance, the NCEUS mooted the idea of a basic 'minimum social floor' and an agenda for 'livelihood promotion' by expanding employment and employability opportunities for informal workers in both formal and informal sector (NCEUS, 2007). Recently, in June 2014, the ILO in its 103rd Session of the International Labour Conference (ILC) also discussed a draft international instrument comprising of seven strategies for facilitating transition from informal to formal economy. There are many things common in both NCEUS and proposed ILO strategies. Some key elements of these strategies for formalizing the informal economy in the Indian context are discussed below.

Generating quality and Remunerative Employment by emphasizing high growth and high employment intensive sector to absorb the new entrants to the labour force, those who are unemployed and those who are trapped in the informal economy is one such element. To the extent possible, focus should be on promoting jobs in the formal economy through pro-employment macroeconomic and sectoral policies and sustainable enterprises and improving the conditions of work (both physical conditions of work and the duration and timing of work) in the informal economy.

Effective Implementation of and compliance to Labour Legislations relating to informal economy so as to improve the minimum conditions of work and protecting rights at work is another key element. Compliance and enforcement should be tightened with adequate penalties in the cases relating to child employment, forced labour situations and other similar gross violations of rights at work. There is also a need for gradually extending the existing labour legislations to all workers and economic units by reducing the threshold limit for the purpose of coverage under various labour enactments. Similarly, there is also an imperative need for rationalization of records/registers for the units falling under the informal economy in order to incentivize the units to come forward for registration.

Skilling informal economy workers and entrepreneurs as envisioned under the National Skills Development Policy formulated by the Ministry of Labour and Employment (MoLE) in 2009 could also be considered. An important component of this overall skills design is to recognize and assess the prior learning/competence of the informal economy workers and certification of their prior learning. This outcome based assessment of prior learning allows the informal economy workers to demonstrate that they are capable of undertaking specific tasks and in turn, helps them in job mobility and earn higher income.

Social security coverage could be extended to informal economy workers and ensuring their access to floor level social security benefits through a convergent mode strategy bringing within its ambit the health, accident, maternity and pension benefits to the widowed and elderly.

India, being a democratic and free enterprise economy, its workers[6] and employers' organisations are important social and labour market institutions. The Constitutional and the legal framework provides for a free, independent and plural unionism. However, despite these positive measures, vulnerable groups in informal economy such as women workers, casual workers, street vendors, migrant workers, home workers and domestic workers are still under-represented. There is a need to reduce the representational gap, which would facilitate transitions to formality by strengthening the bargaining power of the informal economy workers and units.

Access could be extended to micro, small and medium-sized enterprises to finance, markets, management and new technologies and removing various legal and other barriers thereby helping them to expand and enhance their scale of production and concomitant growth in productivity.

Lastly, it is to be borne in mind that the informal economy in India is quite heterogeneous and diverse. The heterogeneity and diversity of the informal economy workers and units call for a tailored approach, while respecting fundamental principles and rights at work. Further, livelihoods and entrepreneurship opportunities in the informal economy needs to be protected and the costs of transition needs to be minimised whereas benefits to be maximised for facilitating gradual and successful transition from informal to formal economy.

Endnotes

1. Prior to 1999/2000, the NSSO used the term 'unorganised sector' and estimated the number of workers in the unorganised sector by using residual method.
2. In NSSO labour force survey, workers are deemed to be covered under social security benefits only if (i) the employer partially or fully contributes/arranges/pays in implementing the social security benefits; and (ii) both the employees and the employer contributes to the scheme.
3. In the formal sector, workers excluded from social security coverage are primarily in the informal jobs.

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IPR Think Tank to draft the National Intellectual Property Rights Policy

Department of Industrial Policy and Promotion has constituted a IPR Think Tank to draft the National Intellectual Property Rights Policy and to advice the Department of Industrial Policy and Promotion on IPR issues. The terms of reference of the IPR Think Tank will be as follows;-

i. To draft National Intellectual Property Rights Policy. ii. To identify areas in the IPRs where study needs to be conducted and to furnish recommendations in this regard to the Ministry. iii. To provide views on the possible implications of demands placed by the negotiating partners. iv. To keep the Government regularly informed about the developments taking place in IPR cases which have an impact upon India's IPR Policy. v. To advise the Government on best practices to be followed in Trademark Offices, Patent Offices and other Government Offices dealing with IPR in order to create an efficient and transparent system of functioning in the said offices. vi. To prepare periodic reports on best practice followed in foreign countries. vii. To highlight anomalies in the present IPR legislations and to advice possible solutions to the Ministry. viii. To give suggestions on the steps that may be taken for improving infrastructure in IP offices and Tribunals. ix. To examine the current issues raised by industry associations and those that may have appeared in media and to give suggestions to the Ministry on such issues.

Development Roadmap

Bal Swachhta Mission launched

The National Bal Swachhta Mission was launched in New Delhi recently. The Bal Swachhta Mission is a part of the nationwide sanitation initiative of 'Swachh Bharat Mission' launched by the Prime Minister on 2nd October, 2014.

The nationwide Bal Swachhta Mission will have the following six themes:-

1. Clean Anganwadis
2. Clean Surroundings e.g. Playgrounds
3. Clean Self (Personal Hygiene/Child Health)
4. Clean Food
5. Clean Drinking Water
6. Clean Toilets. The Women and Child Development Departments of various states have been asked to implement the Bal Swachhta Mission with the help of Departments of School Education, Urban Development, Drinking Water and Sanitation, and Information and Publicity.

Digital Life Certificate for Pensioners

"Jeevan Pramaan" - an "Aadhar-based Digital Life Certificate" for pensioners, that could eventually benefit over a crore pensioners was launched recently .

The proposed digital certification will obviate the requirement of a pensioner having to submit a physical Life Certificate in November each year, in order to ensure continuity of pension being credited into his account. The Department of Electronics and IT has developed a software application which will enable the recording of the pensioner`s Aadhar number and biometric details from his mobile device or computer, by plugging in a biometric reading device. Key details of the pensioner, including date, time, and biometric information will be uploaded to a central database on real-time basis, ultimately enabling the Pension Disbursing Agency to access a Digital Life Certificate. This will conclusively establish that the pensioner was alive at the time of authentication.

The earlier requirement entailed that a pensioner either personally presents himself before the Pension Disbursing Agency, or submits a Life Certificate issued by authorities specified by the Central Pension Accounting Office (CPAO).

At present, 50 lakh individuals draw pension from the Central Government alone. A similar number draw pension from State and Union Territory Governments. Several PSUs also provide pension benefits. Over 25 lakh retired personnel draw pension from the Armed Forces. The Aadhar-Based Digital Life Certificate will go a long way in reducing hardship which so many senior citizens have to go through to produce a Life Certificate every year.

The software application system will be made available to pensioners and other stakeholders on a large scale at no extra cost. It can be operated on a personal computer or a smartphone, along with an inexpensive biometric reading device. This facility will also be made available at Common Service Centres being operated under the National e-Governance Plan, for the benefit of pensioners residing in remote and inaccessible areas.

12 Advanced Training Institutes to be set up as a Part of 'Make in India' Programme

The Directorate General of Employment and Training (DGE&T) of the Ministry of Labour & Employment proposes to set up 12 Advanced Training Institutes (ATIs) at various locations of the country at a Total Project Cost of over 200 Crores. This is the pilot phase of a scheme of the Directorate under its Craft Instructor Training Scheme (CITS), to be implemented in PPP mode, with the objective of training 9200 Vocational Instructors to begin with.

This effort is a part of 'Make in India' program and it places a strong emphasis on skill development.

To address the need for vocational trainers, the DGE&T has decided to setup 27 Advanced Training Institutes (ATIs) for training of trainers., The DGE&T has also decided to explore Public-Private Partnerships as a model for developing these institutes.

DGE&T is an apex organization for development and coordination of the vocational training in India.

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