



open text-based Assessment



2016-17

Class

XI



Economics

Themes

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Central Board of Secondary Education

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OPEN TEXT BASED ASSESSMENT 2016-17

Economics (030) Class - XI

Theme 1: One Child Policy of China

Learning Objectives

- ☐ To understand the concept of One Child Policy of China & its repercussions.
- ☐ To comprehend the reasons responsible for the implementation of the One Child Policy by China.
- ☐ To elaborate and comprehend the results of the One Child Policy of China.
- ☐ To analyze the reasons behind the recent withdrawal of the policy after around 45 years from its implementation.
- ☐ To compare Indo-China population growth over the last five decades.

Note to Readers

The text along with case-study should be thoroughly read, discussed and analyzed by the readers. The readers can get together for a brainstorming session discussing:

- ☐ Objectives of the text/ case-study.
- ☐ The concepts involved in the text.
- ☐ Application of concepts to real life situations.
- ☐ Description and further explanation of the case study/problem or similar situations, if any.
- ☐ Higher order thinking skills involved in answering the questions to be asked in the context of the content given.
- ☐ Exploration of varied assessment techniques.
- ☐ Analysis with different perspectives must be done by readers

OPEN TEXT BASED ASSESSMENT 2016-17

Economics (030) Class - XI

Theme 1: One Child Policy of China

Abstract

*China has always been known for its hard to believe policy formulations and their beyond imagination implementations, be it the Great Proletarian Cultural Revolution or Great Leap Forward or the magnanimous Special Economic Zone (SEZ) policy, China has always taken far-reaching steps under its One Party - Communist Rule to ensure its socio-economic growth. One such highly talked and hotly debated policy step has been the '**One Child Policy**' (OCP) adopted by China since the year 1978 (which is recently taken back on 29th October, 2015 by the Government of China). Revoking the policy by the government may have brought smiles on the faces of innumerable couples across China, yet a segment of Economists are sceptical about success of the pull-back due to reasons like high cost of (quality) living and even conditioning of people living in a three-members family, over all these years. This text is an attempt to understand and analyse the policy and its repercussions on the socio-economic conditions of China. In addition, an attempt is also made to make a comparative study of Indo-China population growth over the last few decades.*

October 30th, 2015 (Beijing) NEWS HEADLINES 'Government Pulls Back One-Child Policy'

Win-li (*an imaginary identity*) is reading the newspaper headline regarding the pull back of the One Child Policy by the Government of China and is just trying to gel with the event where history is being re-written. He is one of those millions of lucky (or the unlucky) middle-aged urban dwellers in the capital city of Beijing who have never been into the company of any sibling (brother or sister) around him, thanks to the One-Child Policy implemented by the Chinese Government way back in 1978. Year after year, decade after decade and generation after generation of people are growing up without any 'brother/sister/sibling' in their lives and families.

There may be some valid economic arguments (like controlled fertility rate, increased per-capita income etc.) in favour of the policy of 'one child', however, for the 'void' created in the lives of millions of parents and kids, there may not be any reason which may be said to be a 'valid argument'. Also, this policy has given birth to new problems like the rising elderly dependent population in China. He begins the retrospective thought process on how and from where it all began:

Mao Zedong (1893-1976), the legendary leader of China had always believed that '**Populous China**' may give birth to a '**Prosperous China**' during the earlier part of his revolution movement. China's fertility rate remained exceptionally high during most of the 1950's and 1960's so the population began to grow rapidly. Unfortunately, there was a catastrophic famine during 1959-

1961 which brought down the fertility rate and the growth rate of the Chinese population drastically. According to very conservative estimates, it brought about as many as 20,000,000 (20 million) deaths and 30 million premature deaths due to a breakdown in agricultural production and resulting food shortages. However, it was also followed by a sharp rebound in the birth rate that lasted for several years in the decade of 1960s. In the year 1970, the population of China crossed 800 million and the State Council (China's Cabinet) called for sharp reduction in the population growth rate and as a result People's Republic of China announced its National Population Policy in 1971, due to the following two main reasons:

1. Speedy surge in population growth rate and,
2. Relatively slower pace of food supply growth vis-à-vis to the rate of rise in population.

In 1975, it came up with the slogan '**Later, Longer and Fewer**' and urged urban couples not to have more than two kids and the rural couples to restrict the number to maximum of three.



A government sign in Tangshan Township: "For a prosperous, powerful nation and a happy family, please practice family planning."

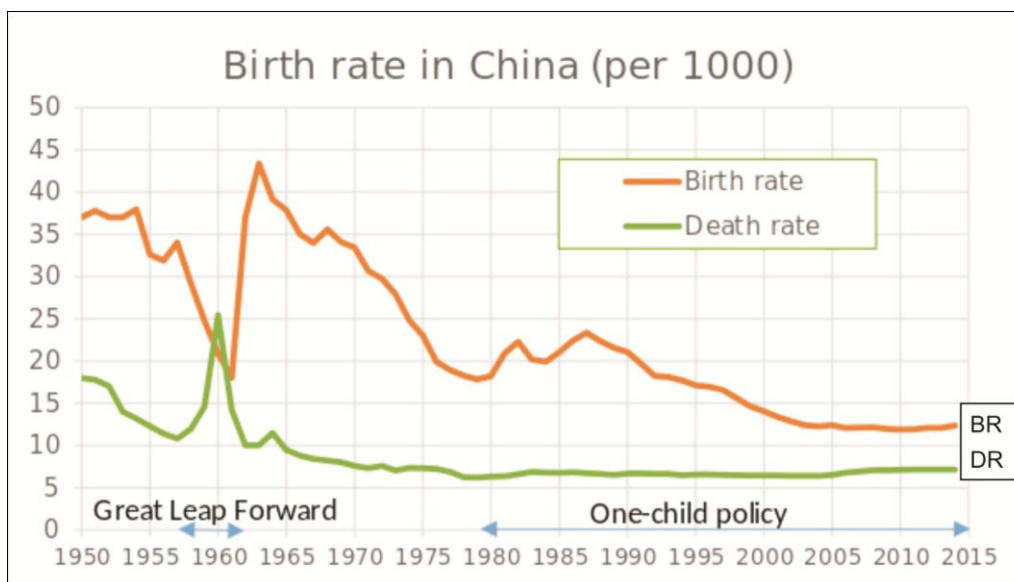
Source: Tangshan Province, Township Authority

The **One Child Policy** was introduced in 1978 (it came into effect in the year 1979, three years after the death of the legendary leader Mao), by Deng Xiaoping, father of Open Door Policy of China, as an endeavour to control the rapidly increasing population. The Chinese Authorities were so much inclined towards the implementation of the policy in the early 1980's that they used variety of methods like incentives, forced abortions, infanticide and strict penalties for those who did not follow it. However, in 1984, some relaxations were announced for rural families on certain grounds/conditions. In the year 2001, Chinese government commanded for greater decentralisation of the policy and allowed some of the local governments to impose fines and penalties for the couples having more than one child in the family.

The year 2006, however saw the **'beginning of the end'** of the One Child Policy when some of the provinces (facing the labour deficit) were allowed by the Chinese Government by easing out restrictions to the couple who were both the 'only children' of their parents. They were allowed to have two children but not beyond that and since then the relaxations have come to the present day, with the pull back of the policy by the government.

Outcomes of the One Child Policy

The Chinese authorities had claimed that the One Child Policy has been extremely successful. According to an estimate, in the first half of 1960's, the average Total Fertility Rate (TFR) was 6 children per woman, that had led to a phase of population explosion and by the end of the decade of 1960, the population in China had reached to more than 800 million. Demographers suggest that China has by now experienced two **'baby booms'** (A baby boom is a period marked by a significant increase in the birth rate); one following the Liberation War and the second after the 1960's Great Leap Forward.

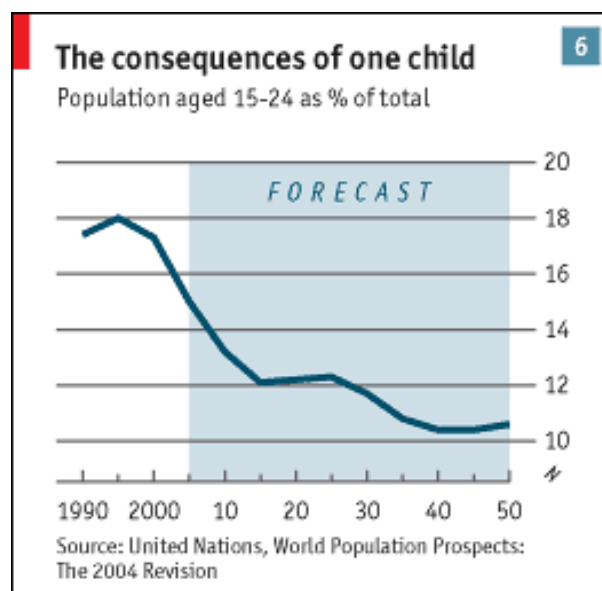


Source: China Statistical Yearbook 2014, Chapter 2- Population,
National Bureau of Statistics (China); stats.gov.cn

The graph above clearly depicts the period when the death rate outplayed the birth rate during the famine years and the subsequent upsurge in the birth rate. It also displays the effect of One Child Policy, during the period 1978-2011. The vertical distance between the Birth Rate and the Death Rate curves represents the Growth Rate of the population which, as the graph represents, is on a persistent and rapid decline over the Post-GLF (Great Leap Forward) period. The authorities in China assert that the policy has prevented around 400 million births from 1979 to 2011. However, some demographers argue that such a decline was bound to happen with the rapid rise in urbanization and fast industrialization due to the 'Open Door Policy' enforced by China. The fertility rate dropped to half in less than a decade, population growth was reduced to a handy level. As

reported by Aileen Clarke of National Geographic, presently China has its birth rate much below the replacement rate/level of 2.1%. **However, the first and foremost negative result of this policy was the beginning of the process of aging of China's average population structure, which is encountered by some other oriental countries too.**

In a study conducted by the United Nations Department of Economic and Social Affairs (before the announcement of the pull back of the One Child Policy by the Chinese Government), predicted that the number of citizens over the ages of 65 years will soar to 219 million by 2030 and will be approximately 25% of the total Chinese population by the year 2050. This will create a major addition to the ongoing labour force deficit prevailing in the country. Officials in China are hoping that with the relaxation in the population control policy, this prevailing labour deficit may come down to some significant levels.



Source: World Population Prospects: The 2004 Revision, United Nations

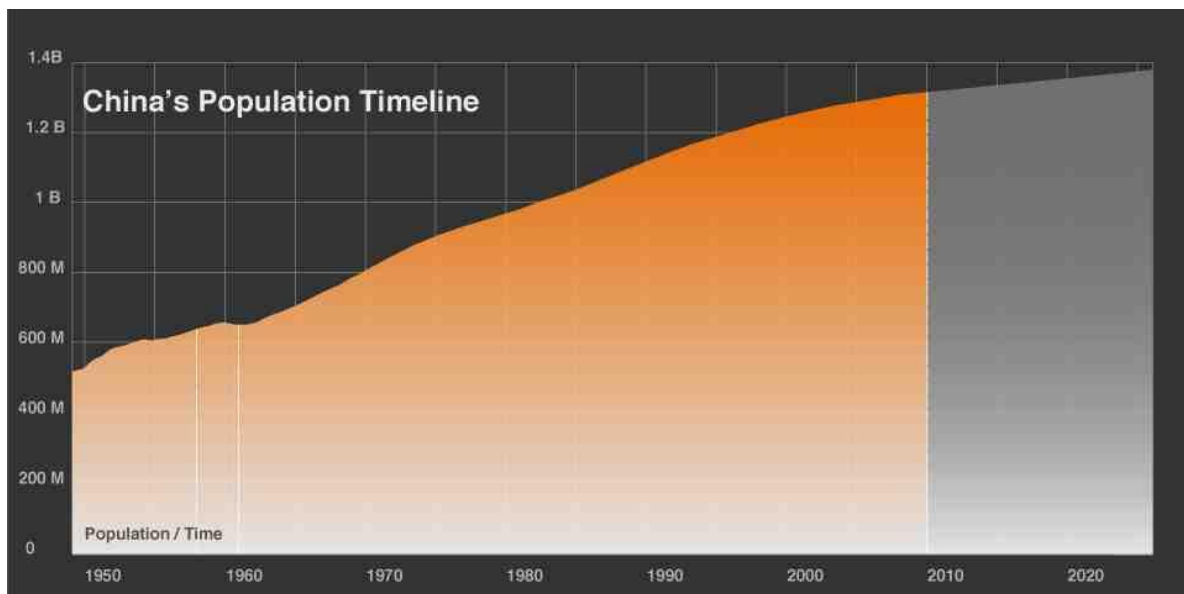
However, a few demographers and economists are of the view that the One Child Policy has worked far too well in case of China and the pull back of the policy has come way too late. Even if the Birth Rate jumps to 2 kids per woman (possibility of which seems to be too bleak) it will be well by the mid 2030's or even 2040's that there may be some upsurge in the China's labour force. As per the reported estimates, by that time other emerging economies, particularly India will move way ahead of China. Some of the economists have already started to predict India as the '**next engine of growth of the world**'.

Today, children constitute a much smaller share of Chinese population and the older age people group is on the rise. China has transformed from the phase of high fertility, high mortality and low natural growth to a phase of low fertility and lower population growth. In fact, it has entered into '**post transition society**' where life expectancy has reached new heights, fertility has declined to low level and a rapid aging population is on the horizon.



Source: China's One-Child Policy and Pension Issues, Luijie, China Daily

Apart from the problem of labour shortage, China is facing a unique and peculiar problem viz. the problem of 4-2-1. This problem refers to a situation where the 'only child' in the family has to bear the responsibility of the 'family' which may extend to both the parents and all the four grandparents in the absence of any 'sibling' as a 'helping hand' to care for the aging family. One can clearly understand this problem of 4-2-1 with the help of the cartoon. In 2015, the approximate size of the Chinese nationals over and above the age of 60 years was above 200 million and this increase in the number of elderly people will lead to augmented expenditure on the demand for health-care of six elderly people in addition to the requirements of his own family needs; the financial implications of which can be too demanding.



Source: A Guide to China's One Child Policy, Brendon

The bottom line is that the One Child Policy has significantly slowed China's population growth and without it, their population today would have been far greater than the present levels. Another possible result of the One Child Policy is the improvement in life expectancy. Between the early 1950s and early 1970s, Chinese life expectancy increased by an average of 1.5 years (every year). Taken together, that means a leap in life expectancy from below 40 years old to almost 70 years old. Similarly, better health-care has resulted in a sharp decline in mortality.

China, similar to India, has always been a country with traditional perception and preference for boys over girls. Demographic data over the years have shown that the One Child policy has only aggravated the already existing skewed sex ratio in the country. According to an estimate, the country has approximately 32-36 million more men than their female counterparts. This has been acknowledged by the Chinese Government as well, that it is not just a population problem rather has taken the shape of a social problem in China, where the quantum of marriageable age boys/men is rising at an alarming rate leading to various form of crimes and social unrest. A large number of researches have shown that there have been massive increases in the social problems, number of research studies have also found that gender-selective abortion (where a woman undergoes an ultrasound to determine the gender of her unborn baby, and then aborts it if it's a girl) was widespread for years, particularly for second or subsequent children. Millions of female fetuses have been aborted since the 1970s. China prohibited gender-selective abortions in 2005, but the law is tough to enforce because of the difficulty of proving why a couple decided to have an abortion. The abandonment and killing of baby girls has also been reported, though recent research studies say it has become rare, in part due to strict criminal prohibitions.

Removal of the One Child Policy – Reasons and Likely Impact

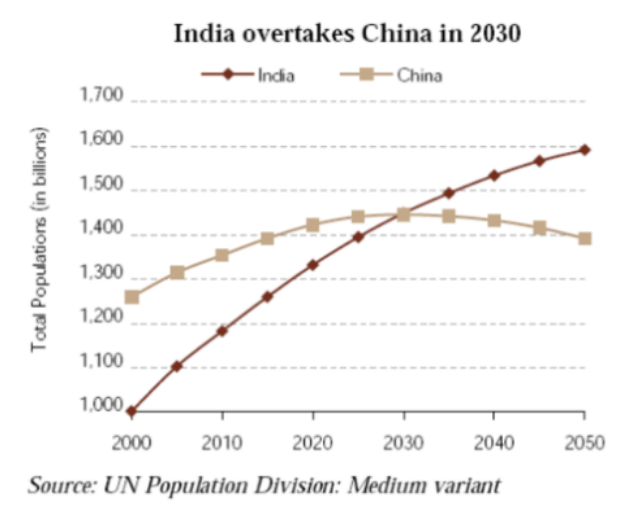
Suddenly, the thought cycle of Win-li is broken and he reads the next paragraph of the news article which said:

"A communiqué from the Communist Party's Central Committee carried on China's official Xinhua News Agency said that the decision to allow all couples to have two children was "to improve the balanced development of population" – an apparent reference to the country's female-to-male sex ratio – and to deal with an aging population". He recalled the predictions made by the United Nations, based on its citizens living longer and having fewer children, that China will lose 67 million working-age people by 2030 and simultaneously doubling the present number of elderly people in the country. That surely will put immense pressure on the individual, society, economy and governments' resources.

Scholars argue that revoking the one-child policy may not provoke any huge baby boom, as the fertility rates in China are believed to be declining in recent past even without the policy's enforcement. Previous moderations of the One Child Policy have motivated fewer births than expected, and many people among China's younger generations see smaller family sizes as ideal, may be due to the conditionings of the generations for the one child in the family.

A recently released report, by Credit Suisse, on the likely impacts of the removal of the One Child Policy propounds that removing the policy would introduce 3 to 6 million more new-born babies each year in China, starting from 2017. The report adds that the One Child Policy damaged the country demographically, but faster population growth brought on by the end of the policy is a business opportunity worth trillions of dollars over time. It is but natural that all these 'prospective people' will be needed to be fed, clothed, housed, healed, powered, transported and networked. In long run, the biggest impact of lifting One Child Policy will be felt in the services, travel and technology industries.

Comparison of demographic data of India and China:



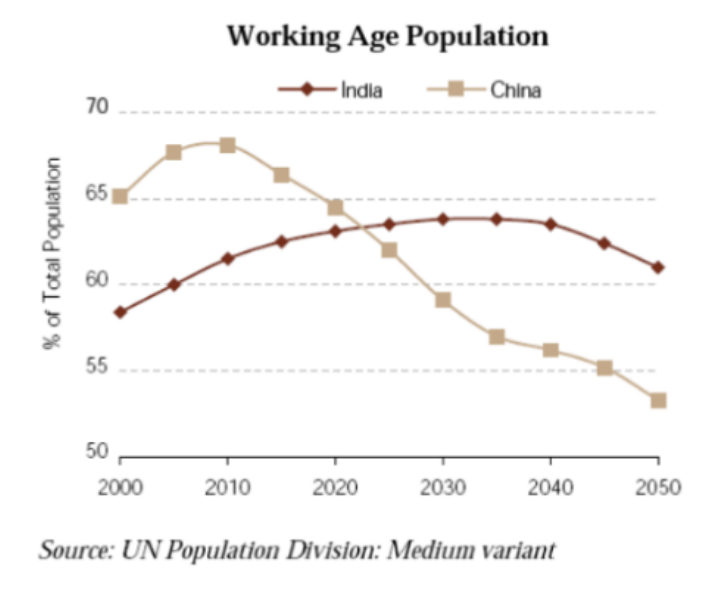
Source: United Nation, Population Division: Medium Variant

Win-li's eyes were glued onto another article that compared demographic data of the two neighbours India and China. He has often wondered how economists across the world have been extremely interested in comparison between these two countries on the planet and the prime reasons are their phenomenal growth on the front of GDP and on the front of population. They are the best case studies for the demographers too. In the present scenario, China is the most populous country in the world and India is closely inching behind it at 1.40 Bn. and 1.28 Bn. (approx.) people respectively living in these countries. Combined together these nations hold around 37% of the world population and 61% of the total population of Asian continent, undoubtedly these figures are mind-boggling.

These numbers exist against the reality of 'One Child Policy' adopted by China since 1970's and India too following population control exercise using tools of its social engineering models since last four to five decades. Population growth rate of India (1.2%) is greater than that of China (0.5%) and is responsible for quickly narrowing down the gulf of population between the two nations. While China crossed its 1bn mark in the year 1982, India touched this level in 1998 and is expected to breach 1.5 bn mark by the year 2033.

Population (Demographic Dividend) – Blessing in Disguise for India

Economists often use the term ‘demographic dividend’ which India as a nation is accruing and will continue to accrue in few decades to come. Growth rate which we are witnessing has ‘Young Indians’ as one of the primary reasons responsible for it. Hence we are far ahead and better off than our Chinese counterparts.



Source: United Nation Population Division: Medium Variant

As per the socio-economic engineering, **‘a well educated young working class can promote the country to any positive heights and vice-versa’**. We are presently standing at an advantageous position with the urban population set to rise by 41% by 2030, creating labour force.

In the figure, the gap between India and China on the front of working age population is quite visible. Whereas, in the year 2000, India was at around 58% level mark against China at 65% mark that rose to around 72% in 2010 for China and 62% for India. As per the estimates, beyond 2010, China has and will continue to witness a rapid and sustained plunge in the working age population at least till 2050. On the other hand, for India this stage of decline may accrue after 2035. This may ensure the continuity of the present momentum of growth for India in the years to come.

Win-li by now has gathered sufficient ideas for drafting his new research paper on the topic of ‘The Pullback of One Child Policy of China’. He called up his students at university for initial discussions; he has gathered some old documents and newspaper clippings to use for the purpose. He picked his bag and moved to university where his students are waiting for the class.

References

- ❑ *China Statistical Yearbook - 2014.*
- ❑ *National Population Statistics, National Bureau of Statistics (China).*

- ❑ *World Population Prospects: The 2004 Revision*, United Nations.
- ❑ *Report on China*, Department of Economics and Social Affairs, United Nations.
- ❑ www.stats.gov.cn

Sample Questions

- Q.1 “Horrors of one-child policy leave deep scars in Chinese society.” Justify the given statement.
- Q.2 ‘China often implements its policies with perfection’. Throw some light on the given statement with reference to its one-child policy.

Suggested Answers

1. The given statement can be justified with reference to:

- ❑ The coercive techniques used by the authorities in China to ensure success of the One Child Policy.
- ❑ Emotional and Psychological voids created in the lives of millions of Parents and Single Child in the family.
- ❑ There should be sufficient explanation to the arguments by the students.

(Any Other Valid Point)

2. China has decided to put an end to the One Child Policy due to:

(any two valid points to be elaborated)

- ❑ Problem of Labour force deficit.
- ❑ Increasing number of elderly people in the country.
- ❑ Skewed gender ratio.
- ❑ Problem of 4-2-1.
- ❑ There should be sufficient explanation to the arguments by the students.

(Any Other Valid Point)

OPEN TEXT BASED ASSESSMENT 2016-17

Economics (030) Class - XI

Theme 2: Role of FDI in Economic Development

Learning Objectives

Students will be able to:

- ☐ Evaluate the role of FDI in the economic growth of a country.
- ☐ Understand the role of FDI in China's Growth.
- ☐ Understand the extent of FDI in China and India.
- ☐ Compare the role of FDI in different states in India with special emphasis to *Make in India*.

Note to Readers

The text should be thoroughly read, discussed and analyzed by the readers. The readers may get together for brain-storming session discussing:

- ☐ Role of FDI in economic development
- ☐ Its impact on developed as well as developing economy
- ☐ Role of FDI in India
- ☐ Sector wise development with special mention of top 10 destinations of FDI

OPEN TEXT BASED ASSESSMENT 2016-17

Economics (030) Class - XI

Theme 2: Role of FDI in Economic Development

Abstract

Foreign Direct Investment (FDI) is an investment received by a company or an entity based in one country, from a company or an entity based in another country. It plays a major role in the economic development of an under developed economy. Over the past century, FDI has served the economies of many countries as a launching pad from where they can soar to greater economic heights. This text will help the students to understand the role played by FDI on development of an economy with special emphasis on China and India.

Foreign direct investment has a major role to play in the economic development of the host country. Over the years, foreign direct investment has helped the economies of the host countries to make further improvements in their economic status. This trend has manifested itself in the last 25 years. Any form of foreign investment brings capital, knowledge and technological resources in the economy. It has been observed that the economically developing as well as underdeveloped countries are dependent on the economically developed countries for financial assistance that would help them to achieve economic stability. The economically developed countries on their part can help these countries financially by investing in these countries.

It can also help the underdeveloped country to build its own research and development bases that can contribute to the technological development of the country. This is helpful as most of these countries are not able to perform these functions on their own especially in the context of the manufacturing and services sector of the particular country, they are able to enhance their productivity and ultimately advance from economic point of view. At times, it could be provided in the form of technology which is an indirect way of acquiring FDI.



Source: Moneycontrol.com

FDI in China

Encouragement to FDI has been an integral part of the planned economic reform process of China. Under Deng Xiaoping's rule in 1970's, China partially opened its territory for foreign investors. It has gradually opened up its economy for foreign businesses and has attracted large amount of direct foreign investment. China's policies toward FDI have experienced roughly three stages:

- a) **Initial Phase** (July 1979 onwards) gradual and limited opening,
- b) **Continuous Development Phase** (1986-91) giving preferential treatment
- c) **High Growth Period** (1992 onwards) promoting FDI with specific objectives

Government policies helped in setting Special Economic Zones (SEZs) to encourage FDI inflow, especially in export-oriented sectors by using relaxed policies. Foreign investors were provided the preferential tax treatment, the freedom to import inputs such as materials and equipment, and simpler licensing procedures. Additional tax benefits were also offered. FDI was encouraged in agriculture, energy, transportation and telecommunication.

Foreign investors now had confidence in investing in China due to the reforms within the nation and the entry to WTO in early 2002. Attracted by the country's investment opportunities and by sheer size and growing domestic market, China is the second largest economy of the world just behind USA. FDI performance of China in attracting large amount of FDI could be attributed to its policy of SEZs particularly exports catering to the international market, focus on infrastructure and comparative advantage owing to the low labor costs. When comparisons are made between the emerging economies, it is observed that policies are common but China stands out with its relaxation for agriculture sector as well.

India's Experience

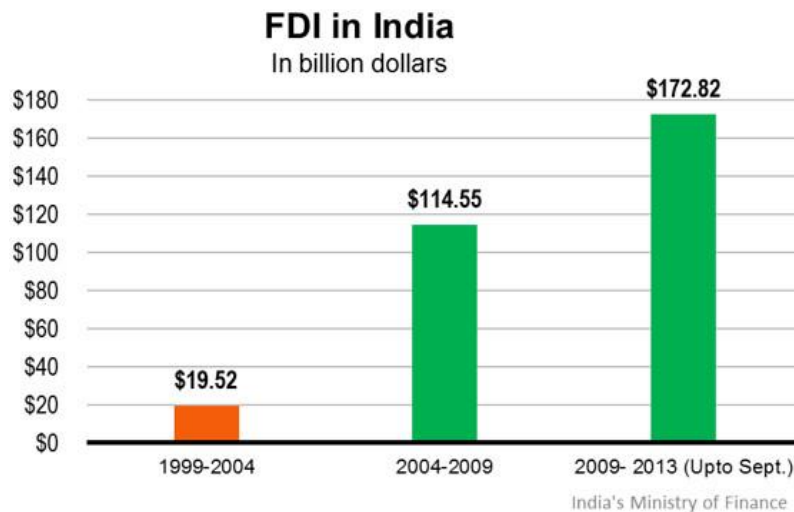
Till 1991, India had followed a cautious approach regarding FDI policy due to 'import-substitution strategy' and 'self reliance'. FDI through foreign collaboration was welcomed in the areas of high technology and high priority Public sector only. Government established Special Economic Zones (SEZs), designed selective liberal policy and provided incentives for promoting FDI in these zones with a view to promote exports. As India continued to be highly protective, these measures did not add substantially to export competitiveness. Since 24th July 1991, there has been a sea change in India's approach to foreign investment when it began structural economic reforms encompassing almost all the sectors of the economy.

In 1991, there was a need for economic reforms because of the following reasons:

- ❑ India's Fiscal Deficit was 8.4 percent of GDP. The economy was caught in debt trap. IMF finally agreed to advance the loan but insisted that the Indian Government should introduce economic reforms
- ❑ Foreign debts rose to 23 percent of Gross Domestic Product.

- ❑ Depletion of Foreign Exchange Reserves
- ❑ Failure of the Public sector
- ❑ Rising prices

India embarked upon economic liberalization and reforms program in 1991 aiming to raise its growth potential and integrating with the world economy. Industrial policy reforms gradually removed restrictions on investment projects and business expansion on the one hand and allowed increased access to foreign technology and funding on the other. These efforts were boosted by the enactment of a large number of Acts to facilitate changes in foreign exchange dealings.



Source: Ministry of Finance (Govt. of India)

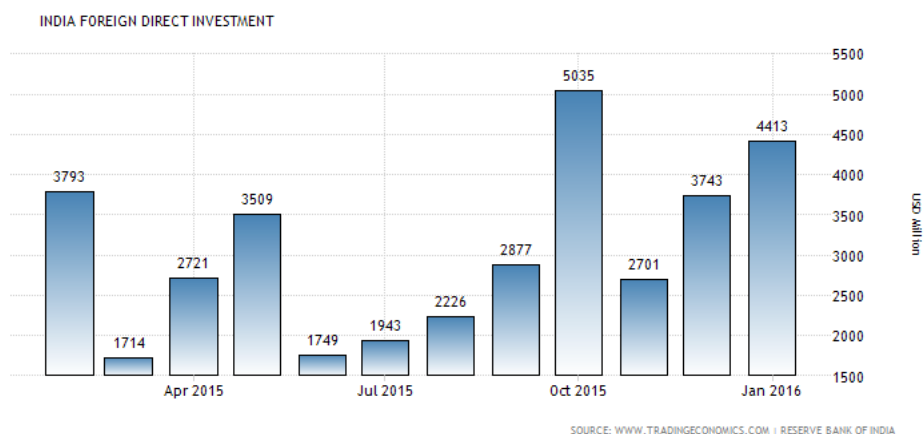
There are two routes by which there is inflow of FDI in India

- 1) **Automatic Route:** By this route, FDI is allowed without any prior approval by Government or Reserve Bank of India. The host co are only required to notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issuance of shares to foreign investors. In the post liberalization era, India is known to have attracted a large amount of foreign direct investment. India is allowing FDI in most of the sectors except a few, where specific guidelines are given for the foreign direct investment beyond a limit. After liberalization its role has changed significantly. Progressive liberalization of FDI policy has strengthened the investor confidence with opening of new sectors like integrated township.
- 2) **Government Route:** Prior approval by government is needed via this route. Foreign Investment Promotion Board (FIPB) is the responsible agency to oversee this route. India has been a major recipient of FDI inflows in the majority of sectors. Under the this route, the proposals are considered in a time-bound and transparent manner by the FIPB. Approvals of proposals involving foreign investment/ foreign technical collaboration are also granted on the recommendations of the FIPB.

Investment proposals falling under the automatic route and matters related to FEMA (Foreign Exchange Management Act) are dealt with by RBI, while the Government handles investment through approval route and issues that relate to FDI policy through its three institutions:

- 1) Foreign Investment Promotion Board (FIPB)
- 2) Secretariat for Industrial Assistance (SIA)
- 3) Foreign Investment Implementation Authority (FIIA).

According to a report of the RBI, there has been a rise in India's Foreign Direct Investment from US \$ 3509 in April 2015 to US \$ 4413 in January 2016 as seen in the chart below.



Source: Reserve Bank of India

Since the onset of liberalization, the country experienced a high jump in the inflows of FDI in services sector because of the tremendous growth potential that it possesses. This sector has been ranked among the top ten sectors attracting FDI since 1991. Establishment of software technology parks, regulatory reforms by the Indian Government, the growing Indian market and availability of skilled work force have been important factors in boosting FDI inflows in this sector.

Figure 1: Trends in Foreign Direct Investment Inflows in India 1990-91 to 2009-10



Source: Reserve Bank of India

The top 10 countries FDI Inflow to India between April 2000 to July 2014 shows Mauritius, Singapore, UK, Japan, Netherlands, USA, Cyprus, Germany followed by France and Switzerland.

FDI Inflows: Sector-Wise Analysis

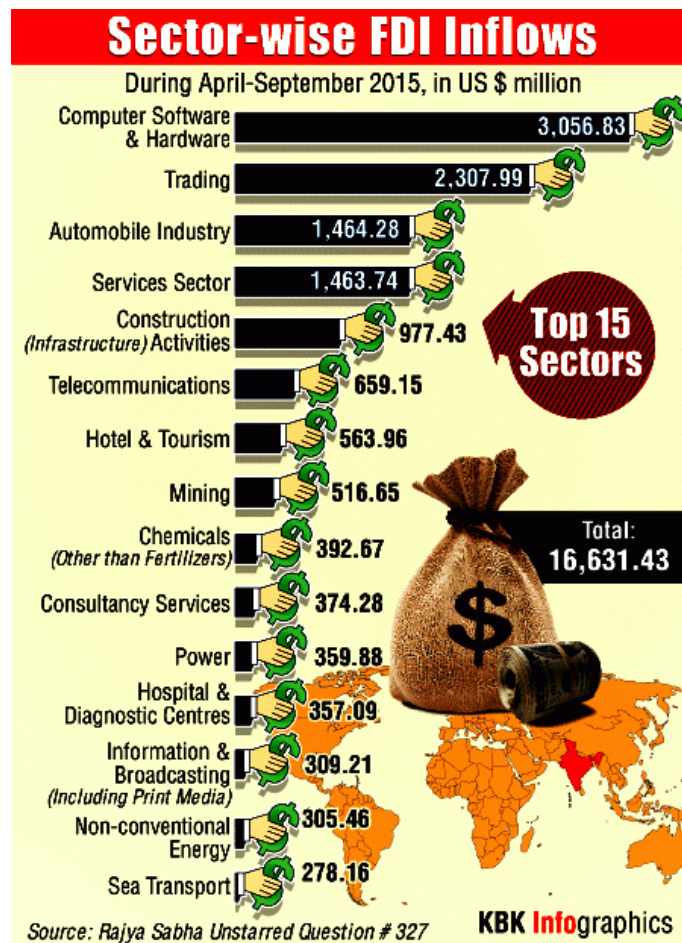
Telecommunication Sector in India is growing at an astonishing pace. India has more than 125 million telephone networks, which is one of the largest communication networks around the globe. Telecom industry which comprises of telecommunication, cellular mobiles and basic telephone services has ranked among the top ten sectors in attracting FDI since 1991. The main cause of huge FDI inflow in the telecom sector is the growing demand in India and the private sector participation.

Construction Sector is among the top 5 sectors in attracting FDI. This includes housing, commercial premises, hotels, resorts, hospitals, educational institutions and infrastructure. FDI to this sector is permissible under automatic route. The amount of inflow to construction activities during 2000 to 2014 has witnessed magnanimous growth. The construction activities sector shows a steep raise in FDI inflows from 2005 onwards.

Automobile Industry: FDI inflows to automobile industry in India have been increasing at a fast pace. 100 percent FDI is allowed in this sector and India is becoming a prime destination for many international players in the automobile industry who wish to set up their base in Asia. The basic advantages that India can provide are advanced technology, cost effectiveness, efficient manpower and most important growing demand.

Power Sector: The power sector has attracted considerable FDI during the period 1991-99. The huge size of the market in this sector and high returns on investment are two important factors in boosting FDI inflows to power sector. 100 percent FDI is allowed under automatic route in almost all kinds of power generation except atomic energy.

Metallurgical Industry: FDI inflows to the metallurgical industries have remained less noticeable after 1991. FDI in this sector can help to bring the latest technology but this sector could not get much FDI due to the dominance of public sector. India ranks among the top ten suppliers of aluminium and steel across the globe. India is the biggest manufacturer of sponge iron across the world.



Source: Ministry of Finance (Govt. of India)

Petroleum and Natural Gas: FDI inflows to this sector have started pouring since the year 2004. Since then the inflows in this sector have picked up in absolute sense and it has just managed to rank itself among the toppers although important initiatives have been taken by the Indian government to drive FDI inflows. Hundred percent FDI is now permitted under the automatic route and the growing demand for Petroleum and Natural Gas necessitates augmented investment in this sector.

Chemicals other than fertilizers have attracted a significant portion of FDI during 1980s and 1990s. During the period 1991 FDI inflows to this industry has greatly increased over the last few years due to the several incentives provided by the government of India. 100 percent FDI is allowed in chemicals under the automatic route in India. International companies having operations in chemical industry are Dow Chemicals, BASF, Du Pont and Bayer.

Trading sector showed a trailing investment pattern up to 2005 but there is an exponential rise in inflows from 2006 onwards. The top five Indian companies which received FDI inflows are: Multi Commodity Exchanges of India Ltd, Anchor Electricals, Metro cash and Carry Pvt. Ltd and Essilor India Pvt. Ltd.

HOTEL and TOURISM industry is growing faster for the past few years, bringing in large revenues through foreign as well as domestic tourists in various parts of the country. 100 percent FDI is permitted in Hotels and Tourism under the automatic route. FDI inflows to this country have increased from US \$91.13 million during 1991-99 to US \$7607.01 million during 2000-14. Outbound tourists from India have also increased in recent years, with more Indians undertaking foreign trips. Many international tour operators have started operations from India to tap the growing market of foreign tours from India. This has also led to increased Foreign Direct Investments in the hotel and tourism industry in India.

According to UNCTAD's Global Investment Trends Monitor (2011), improved macroeconomic conditions, particularly in the emerging economies, which boosted corporate profits coupled with better stock market valuations and rising business confidence augured well for global FDI prospects. According to UNCTAD, these favourable developments have increased the share of developing countries over 50 per cent in total FDI inflows, and this may increase further due to strong growth prospects. India also received large FDI inflows due to domestic economic performance. The attractiveness of India as a preferred investment destination has increased over the last two decades. The significant increase in FDI inflows to India reflected the impact of liberalization. FDI was gradually allowed in almost all sectors, except a few on grounds of strategic importance, subject to compliance of sector specific rules and regulations.

China permits 100 per cent FDI in agriculture while this completely prohibits FDI in media. In India, on the other hand, foreign ownership is allowed up to 100 per cent in sectors like 'mining, oil and gas', electricity and 'healthcare and waste management'.

MAKE IN INDIA: It is an initiative taken by the Government of India to encourage multinational as well as domestic companies to manufacture their products in India.

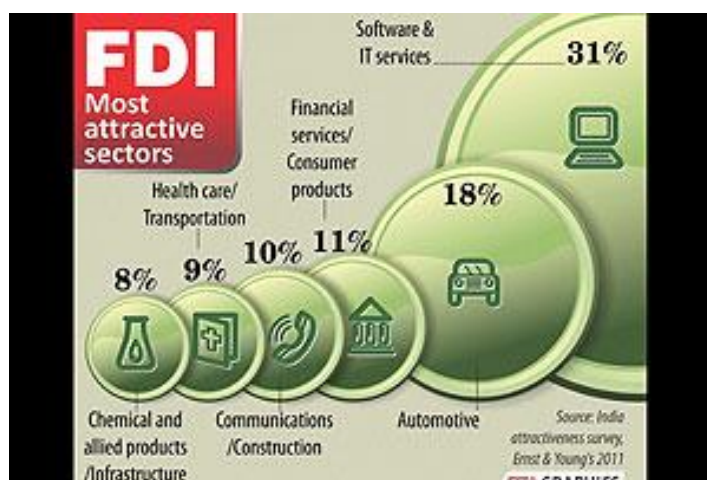


Source: Ministry of Commerce, Government of India

The objective of Make in India is:

- ☐ To focus on job creation and skill development
- ☐ It aims at maintaining high quality standards
- ☐ Minimizing the adverse impact on environment
- ☐ Attracting better technology and greater investment in India

The most attractive sectors of FDI under Make in India are Automobiles, Automobile Components, Aviation, Biotechnology, Chemicals, Construction, Defence, Manufacturing, Electrical Machinery, Electronic Systems, Food Processing, Information Technology, Leather, Media and Entertainment, Mining, Oil and Gas, Pharmaceuticals, Ports and Shipping, Railways, Renewable Energy, Roads and Highways, Space and astronomy, Textiles and Garments, Thermal Power, Tourism and Hospitality, Wellness. 100% FDI is now permitted in all the sectors except for space (74%), defence (49%) and media (26%).



Source: Indian Express (website)

After initiation of the programme, India would emerge as the top destination globally for foreign investments.

Before the launch, foreign equity caps were relaxed, licenses were available online and their validity was increased to three years. In 2014, 49% FDI in defence sector and 100% in railways infrastructure was also permitted. Between September 2014 and November 2015 US \$ 18 billion worth of proposals were received by the Government. With the demand of electronic hardware expected to rise to US \$ 400 billion by 2020, India has the potential to become a manufacturing hub. Spice group in UP, Samsung in Noida and Hitachi in Chennai, Huawei in Bangalore, Xiaomi in Andhra Pradesh made investments and set up their units in India.

TOP 10 FDI DESTINATIONS IN INDIA

S. No.	City	Industry	Reasons
1	Bangalore	IT sector	Infrastructure and competent workforce
2	Delhi	Service industry IT industry Consulting	Being capital better facilities and competent workforce

3	Pune	IT sector Software Manufacturing	Better facilities and workforce
4	Mumbai	Services, manufacturing. Energy, transport and banking	Setting up of SEZ, financial capital, biotechnology, e- governance
5	Chennai	Automotive sector	Government policies
6	Hyderabad	IT sector	SEZ
7	Kolkata	IT and software	SEZ and better infrastructure
8	Ahmedabad	Exports and jewellery	Sabarmati Riverfront development project
9	Nagpur	Power distribution	Public transport
10.	Jaipur	Traditional and Hand-made Jewellery of stones.	Local cottage industries

On 30 November 2015, the Ministry of Railways signed formal agreements with Alstom and GE Transport worth US\$5.9 billion to set-up locomotive manufacturing factories in Madhepura and Marhaura in Bihar. In December 2015, Qualcomm announced "Design in India" programme to help mentor up to 10 Indian hardware companies with the potential to come up with innovative solutions and help them reach higher scale of production. As part of the programme, the company will set up an Innovation Lab in Bengaluru to provide technical and engineering support to the selected companies. In the same month, Micromax announced that it would establish three new manufacturing units in Rajasthan, Telangana and Andhra Pradesh at a cost of US\$45 million. The plants will begin functioning in 2016, and will each employ 3,000-3,500 people. Following Japanese Prime Minister's visit to India in December 2015, it was announced that Japan would set up a US\$12 billion fund for Make in India related projects called the "Indo-Japanese Make-in-India Special Finance Facility". In December 2015, phone manufacturer Vivo Mobile India has already began manufacturing smart phones at a plant in Greater Noida, which employs around 2,200 people. A defence deal was signed during Prime Minister's visit to Russia in December 2015 which may see the Kamov Ka-226 multi-role helicopter being built in India. This is widely seen as the first defence deal to be actually signed under the Make in India campaign.

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Sample questions

Q.1 Compare the FDI inflow in China with India?

Ans FDI inflow in China took place in 3 steps: Initial phase, continuous development phase and high growth rate.

Q.2 Why were the post liberalization measures introduced in India for increasing the FDI inflow?

Ans: The need for implementation of the new economic policy was the failure of public sector, a very high fiscal deficit, debt trap and depletion of foreign exchange reserves.



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