

The Role of FDI in Economic Growth : A Study About Odisha

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The name Orissa is derived from Sanskrit word “Odra Vishaya” or “Odra Desa”. The ancient province of “Odra Desa” or “Or-Desa” was limited to the valley of the Mahanadi and to the lower course of the Subarnarekha River. The Orissa State, which was once a land of Kings and Kingdoms, now boasts of being rich source of natural resources. Its people, temple architecture, classical dance, religions, fairs and festivals, unique handlooms and handicrafts, green woodlands, rock caves, charming blue hills have always attracted historians, tourists and travellers from all over the world.

Orissa is one of the important states of India which is endowed with varieties of mineral resources. The mineral resources of Orissa have reputation for being qualitative for industries. The mineral resources of Orissa include Iron ore, Manganese, Coal, Bauxite, Dolomite, Tin, etc. Mineral resources have played an important role to make Orissa hot destinations for industries. Because of mineral resources big industries, like Rourkela Steel Plant, National Aluminum Company, National Thermal Power Corporation, have established their positions not only in India but also in world market. Besides those, reforms in infrastructure in recent years have created an atmosphere conducive for major industries of the world to look forward to Orissa as an epi-centre

for industrial growth. In Eastern India, Orissa is really growing in real sense to become an industrial hub in the coming years.

Orissa one of the coastal states of India, comprises 4.74% of the landmass and accounts for 3.58% of the population of the country (2001 census). Nearly 85% of its population live in the rural areas and depend mostly on agriculture for their livelihood. The State has abundant mineral resources and as percentage of all India resource stock, there is fairly heavy concentration in respect of Bauxite, Chromites, Graphite, Nickel, Coal and Iron-Ore. The rate of cumulative exploitation has remained low. However this has not provided a sufficient condition for the establishment of metallurgical and non-metallic mineral based industries on a large scale in the State. Even the value addition within the State has remained relatively low. Paradoxically, Orissa continues to remain poor among plenty of resources.

Government of Orissa aims at creating an industry-enabling and investor- friendly climate in the State with a view to accelerating industrial developments, employment opportunities and economic growth. IPR-2001 and Orissa Industries (Facilitation) Act, 2004 incorporate the above objectives. Govt. Orissa has already emerged as a major investment destination for national as well as transborder national investors,

especially in steel, aluminium, petrochemicals, power, IT and ITES, food processing industries, tourism and other such sectors.

The Role of Foreign Direct Investment

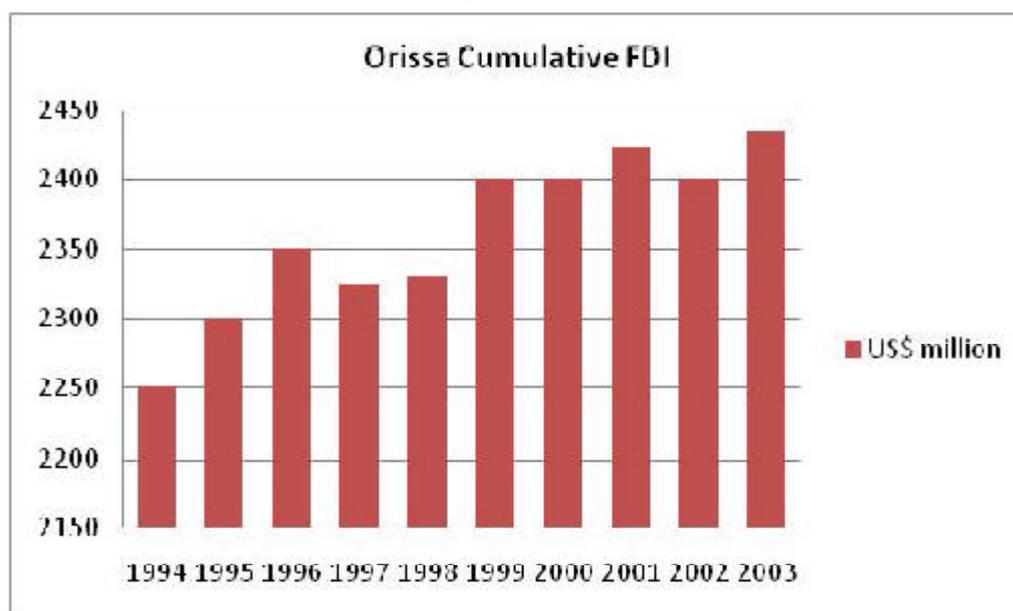
The role of Foreign Direct Investment in an economy goes beyond simply easing financial constraints. FDI inflows are associated with multiple benefits such as technology transfer, market access and organisational skills. Consequently, there is an increasing and intense competition between countries to maximize the quantity of FDI inflows. Any successful policy for attracting FDI has to keep this competitive scenario in mind.

The benefits of FDI inflows can be broadly identified as:

- ◆ Bridging the financial gap between the quantum of funds needed to sustain a level of growth and the domestic availability of funds.
- ◆ Technology transfer coupled with knowledge diffusion that leads to improvement in productivity. It can, thus, fasten the rate of technological progress through a ‘contagion’ effect that permeates domestic firms.
- ◆ The transfer of better organisational and management practices through the linkages between the investing foreign company and local suppliers and customers.

In the context of a developing country like India, the role of FDI in easing financial constraints becomes critical. According to the Planning Commission, at current levels of efficiency in the economy, the increase in investment needed to achieve a percentage point rise in the overall growth would be 6 percentage points. Since this addition to investment cannot come entirely from domestic sources, a substantial portion will have to be funded by FDI.

Fig.-1



Source: Directorate of Industries, Government of Orissa

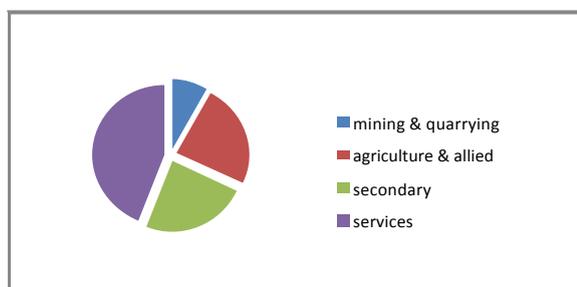
The key industries in Orissa are primarily basic metals (including iron & steel, aluminium) and chemicals & chemical products. Between 1991-2004, Orissa attracted 0.9 per cent of India's investment, aggregating to nearly US\$ 370 million. Currently, investment worth US\$ 20 billion are in the pipeline in Orissa and a sector-wise break-up of these projects indicates that a majority of the investment are in electricity generation and mineral-based industries including aluminium and steel. Orissa can emerge as a hub for metals business in India and has the potential to attract investment up to US\$ 30-40 billion over the next five years if it focuses on utilising the opportunity presented by the current global metals cycle. With its locational advantage, and the current up trend in global market, the State can become the metals, mining, and manufacturing hub of the country. Though Orissa accounted for only 6.3 per cent of projects under implementation as on January 2005, its share of India's aggregate outstanding projects 'announced' has risen to 17 per cent. Its share in manufacturing sector projects announced in India is higher at 38 per cent and the investment value of projects announced in Orissa has shot up over four times to US\$ 24 billion as on January 2005 from US\$ 5.5 billion in January 2004 (Centre for Monitoring Indian Economy).

During 1991 to 2003, Orissa approved over US\$ 2.3 billion of foreign direct investment. The key sectors attracting FDI in Orissa are electricity, metals and metallurgical products, chemical and chemical products. It now seems that there has been a turning point in the last few years and the economy of Orissa has witnessed acceleration in terms of the gross state domestic product (GSDP). Orissa's real GSDP has grown by an average annual rate of 4.8% on a long term

basis during 1980-81 to 2006-07 compared to 6% for the same period for the nation as a whole. The index number of GSDP (with 1980-81 = 100.0) nearly doubled over the 20 years period 1980-2000 and has further increased by another 60 per cent since then. In particular, there has been a sharp rise in the index after 2002-03. The average GSDP growth rate of 8.6 per cent per annum during the period 2002-03 to 2006-07 compares very well with the national level. The per capita income of Orissa was about Rs.7700 at 1999-2000 prices in the year 1980-81. It nearly doubled to Rs.15100 in 2006-07 (Figure 2). Per capita income at the national level has grown by 160 per cent from about Rs.8600 to Rs.22700 during the same period. Orissa thus continues to remain behind the national average considerably. There have been attempts to bridge the gap and the growth rates noticed in recent years is the first major indicator of a move in that direction.

Like other developing economy, the economy of Orissa has been going through structural changes away from agriculture in favour of industry and services. Primary sector accounted for most of income generated in the State in 1980-81. It has reduced to 32% in 2006-07. It might be noted that mining and quarrying sector plays a more important role in Orissa and income generated in this sector forms about 8% of total income. About 24% of State income is produced by agriculture and allied sectors. Share of secondary sector has increased from 17% to 23% and that of services from 30% to 44%. Compared to the all-India level, primary sector's share is about 12% more in Orissa and service sector's share is about 10% less. Share of the secondary sector in Orissa is nearly similar to that for all states taken together.

Fig.-2
Percentage Composition of GDP



Source: Directorate of Industries, Government of Orissa

Conclusion

India's rising growth trajectory requires rapidly expanding infrastructure facilities to support it. The Government recognises the fact that domestic resources alone may not be adequate to sustain the required expansion in infrastructure. Thus, it has followed a strategy to create incentives for Foreign Direct Investment. India, today, has an extremely liberal regime for FDI in terms of entry norms. As Odisha is a hub of mineral resources the Government has taken systematic initiatives to address these problems largely through comprehensive reforms in sectors like power, iron and steel. The combination of

domestic private foreign investment and multilateral investments is likely to propel Odisha's economic growth momentum in future.

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