

Foreign direct investment

7.8 Foreign direct investment (FDI) is an important avenue through which investment takes place in India. The importance of FDI extends beyond the financial capital that flows into the country. In addition, FDI can be a tool for bringing knowledge, and integration into global production chains, which are the foundation of a successful exports strategy.

7.9 Table 7.5 shows major receipts of FDI in the developing world. These range to values as large as US\$ 46.8 billion in 2001 into China, as compared with US\$ 3.4 billion into India. However, it appears that the gap between these two estimates may be

exaggerated owing to technical issues in measurement. RBI is presently evaluating some modifications in the way that Indian FDI is measured, which could yield somewhat higher estimates for India. This table also highlights the competition that India faces in seeking to attract FDI. Other countries are likely to improve policies and institutions in the years to come, in order to further increase their FDI inflows.

7.10 Table 7.5 also suggests a link between FDI and exports. Exports from developing countries are often associated with international firms choosing to use a country as a target for FDI and then for production destined for global markets.

7.11 During January-December, 2002, FDI proposals approved declined to Rs.11,140 crore from the level of Rs. 26,875 crore seen in the corresponding period of last year (Table 7.6). This is mainly due to the fact that most activities are now on the automatic route, wherein actual inflows are also treated as the approved amount. Actual investments are made in a phased manner depending upon business needs. Actual FDI inflows during 2002 (January-December) showed an increase to Rs. 21,286 crore, as compared with Rs. 19,265 crore in the corresponding period of the last year. There has been a sharp decline in the number of Foreign Technology Agreements (FTAs) since the peak level of 982 achieved in 1995, which is largely explained by the fact that most FDI proposals include foreign technology collaborations, which are not reflected in the table below.

7.12 In terms of the country-wise breakup of FDI inflows, the most important countries are Mauritius (38.7 percent), followed by the United States (17.1 percent) and Japan (6.8 percent). The special role of Mauritius here is likely to be the consequence of the special tax treatment accorded in India to investments routed through Mauritius (Table 7.7).

Table 7.5 : FDI inflows and exports in selected Asian developing countries in the year 2001				
<i>(billion US \$)</i>				
	FDI	Percent share to world total	Exports	Percent share to world total
1 China	46.8	(6.4)	266.6	(4.4)
2 Hong Kong	22.8	(3.1)	189.9	(3.1)
3 India	3.4	(0.5)	43.3	(0.7)
4 Indonesia	-3.3	(-0.4)	52.1	(0.9)
5 Korea	3.2	(0.4)	150.4	(2.5)
6 Malaysia	0.6	(0.1)	88.0	(1.4)
7 Philippines	1.8	(0.2)	32.7	(0.5)
8 Singapore	8.6	(1.2)	121.8	(2.0)
9 Srilanka	0.2	(0.0)	4.8	(0.1)
10 Thailand	3.8	(0.5)	65.1	(1.1)
Developing economies	204.8	(27.9)	2255.1	(36.8)
World	735.1		6121.3	
Source : 1. World Investment Report-2002, UNCTAD.				
2. International Financial Statistics, January, 2003.				

Table 7.6 : Total foreign technology agreements (FTAs) and foreign direct investment (FDI) approvals				
<i>(Amount Rs. crore)</i>				
Year (Jan.-Dec.)	No. of FTA's approved	No. of FDI approvals	Amount Approved of FDI	Actual Inflow of FDI**
1991	661	289	534	351
1992	828	692	3,888	675
1993	691	785	8,859	1,787
1994	792	1,062	14,187	3,289
1995	982	1,355	32,072	6,820
1996	744	1,559	36,147	10,389
1997	660	1,665	54,891	16,425
1998	595	1,191	30,814	13,340
1999	498	1,726	28,367	16,868
2000	418	1,726	37,039	19,342
2001	288	1,982	26,875	19,265
2002	307	1,966	11,140	21,286@
Total	7464	15,998*	2,84,812	1,29,838**
Note : @ January-August				
* Includes 97 proposals approved by FIPB for ADRs/GDRs/FCCBs amounting to Rs48,455.23 crore.				
** Includes:				
➤ Amount raised through ADRs/GDRs/FCCBs Rs. 25,175.74 crore.				
➤ Inflow of Rs. 17,560.82 crore on account of acquisition of existing shares by Foreign Investors. During 1996-December, 2002.				
➤ Inflows of Rs. 84.00 crore on account of stock swapped.				
➤ Inflow amount of RBI's – NRI Schemes – Rs. 8,358.58 crore.				
➤ Advance amount of Rs. 5,503.09 crore pending allotment of the shares for the years 1999, 2000, 2001 & 2002 (October-December).				
Source : SIA (FDI Data Cell), Department of Industrial Policy & Promotion, Ministry of Commerce & Industry.				

Table 7.7 : Share of top investing countries in FDI inflows						
(During August, 1991 to October, 2002)						
<i>Amount Rs crore (US \$ million)</i>						
Rank Country	Sep.1991 to Dec. 1995	Jan.1996 to Dec. 2000	2001 (Jan.-Dec)	2002* (Jan.-Oct.)	Amount of FDI inflows in Rs.	Percentage in total**
1 Mauritius	1,732.08 (551.7)	13,863.27 (3,596.2)	7,312.98 (1,625.1)	4,982.81 (1,038.1)	27,891.15 (6,811.1)	38.7
2 USA	1,645.43 (537.5)	8,151.27 (2,108.3)	1,452.88 (322.9)	1,084.25 (225.9)	12,333.84 (3,194.6)	17.1
3 Japan	661.20 (216.4)	2,989.71 (759.7)	950.41 (211.2)	324.03 (67.5)	4,925.35 (1,254.8)	6.8
4 UK	1,097.80 (361.5)	1,387.12 (355.2)	270.01 (60.0)	1,013.84 (211.2)	3,768.77 (988.0)	5.2
5 Germany	484.68 (159.2)	2,199.94 (579.4)	481.75 (107.1)	437.57 (91.2)	3,603.94 (936.9)	5.0
6 Netherlands	450.12 (145.7)	2,047.73 (537.4)	349.34 (77.6)	404.46 (84.3)	3,251.65 (845.0)	4.5
7 Korea (South)	100.70 (32.7)	2,067.54 (556.8)	20.30 (4.5)	66.67 (13.9)	2,255.21 (667.9)	3.1
8 France	334.00 (108.9)	931.51 (232.2)	562.31 (125.0)	167.96 (35.0)	1,995.79 (501.0)	2.8
9 Italy	51.45 (16.9)	1,452.12 (357.3)	126.93 (28.2)	207.26 (43.2)	1,692.60 (441.7)	2.4
10 Singapore	292.32 (94.6)	1,032.66 (268.7)	158.36 (35.2)	17.73 (3.7)	1,648.22 (406.1)	2.3
Note :						
1. * Figures 2002 updated up to October, 2002.						
2. ** Percentage figures do not take into account of FDI inflows for ADRs/GDRs /FCCBs , RBI's NRI Schemes, acquisition of existing shares and advance pending for allotment of shares, as these are not categorised Country-wise.						
3. Percentage and ranking of above countries are worked out on the basis of cumulative FDI approvals during August, 1991 to October, 2002.						
4. Total amount includes inflows received through FIPB+SIA+RBI routes, acquisition of shares, RBI's NRI schemes, amount on account of ADRs /GDRs & advance pending for issue of shares.						
Source : SIA (FDI Data Cell), Department of Industrial Policy & Promotion, Ministry of Commerce & Industry.						

**Table 7.8 : Sectors attracting highest FDI approvals with inflows
(During August, 1991 to October, 2002)**

Amount Rs. crore
(US \$ million)

Rank	Sector	Amount of FDI approved	Percentage of total FDI approved*	Amount of FDI inflows	Percentage of total FDI inflows	Inflows as percent of approvals
1	Energy					
	(i) Power	43,481 (11,855)	15.4	-	-	-
	(ii) Oil refinery	33,964 (9,060)	12.0	-	-	-
	Total (i+ii)	77,445 (20,915)	27.4	7,475 (1,813)	10.4	9.7
2	Telecommunications (Radio Paging, Cellular mobile, Basic telephone services)	56,273 (15,197)	19.9	9,300 (2,259)	12.9	16.5
3	Electrical equipment (including Computer software & electronics)	27,853 (7,027)	9.8	10,058 (2,488)	13.9	34.1
4	Transportation industry	20,981 (5,512)	7.4	7,800 (1,984)	10.8	37.2
5	Services sector (Financial & non-financial)	18,416 (4,932)	6.5	5,968 (1,573)	8.3	32.4
6	Metallurgical industries	15,453 (4,253)	5.5	991 (252)	1.4	6.4
7	Chemicals (other than fert.)	12,852 (3,677)	4.5	4,840 (1,316)	6.7	37.7
8	Food processing industries	9,379 (2,715)	3.3	2,884 (788)	4.0	30.8
9	Hotel & tourism	4,902 (1,385)	1.7	546 (138)	0.8	11.1
10	Textiles	3,466 (1,006)	1.2	1,059 (290)	1.5	30.6

* Percentage figures do not take into account the amount of FDI inflows for ADRs/GDRs/FCCB's, RBIs-NRI Schemes, acquisition of existing shares and advance pending for allotment of shares, as these are not categorise sector-wise.

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

7.13 In terms of the industries where FDI has come into India, Table 7.8 shows that the most important sectors are telecom, electrical equipment including computer software, energy, and the transportation industry. These four sectors accounted for roughly 50 percent of FDI inflows. Electrical equipment including computer software and electronics are the sectors which have attracted highest approval technology transfer (Table 7.9).

**Table 7.9 : Sectors attracting highest approvals in technology transfer
(During August, 1991 to October, 2002)**

Sector	No. of technical collaborations (TC) approved	Percentage with total (TC) approved
1 Electrical equipment (including Computer software & Electronics)	1,174	16.4
2 Industrial machinery	832	11.6
3 Chemicals (other than fert.)	813	11.3
4 Transportation industry	604	8.4
5 Metallurgical industry	355	4.9

Source : SIA (FDI Data Cell), DIP&P.