Foreign Direct Investment

7.36 Foreign direct investment (FDI) gives opportunities to Indian industry for technological upgradation, gaining access to global managerial skills and practices, optimizing utilisation of human and natural resources, and competing internationally with higher efficiency. Most importantly, FDI is central for India's integration into global production chains, which involve production by multinational corporations spread across locations all over the world.

7.37 India has one of the most liberal policy frameworks for FDI and foreign technology transfer. FDI up to 100 per cent is permitted under the automatic route in the most sectors. Entry under automatic route only requires post-entry notification and no prior approval.

7.38 One outstanding issue which has come to prominence in recent years has been the problem of non-comparability of Indian FDI statistics. A committee was constituted in May, 2002 by DIPP in order to bring the reporting system of FDI data in India into alignment with international best practices. This Committee submitted its report in October, 2002 and recommended that the FDI statistics should include, besides equity capital, 'reinvested earnings' (retained earnings of FDI companies) and other 'direct capital' (inter-corporate debt transactions between related entities).

7.39. The results of such a reclassification are shown in Box 6.4 of Chapter 6 of the Economic Survey 2003-04. On an average, the revised estimates are 70 per cent larger.

7.40 Table 7.15 shows the receipts of FDI inflows in the top ten developing countries. In 2002, FDI into China was US$52.70 billion compared with US$3.45 billion in India. This table also highlights the competition that India faces in seeking to attract FDI.

7.41 World FDI inflows declined significantly in the previous three years from US$1.4 trillion in 2000 to US$824 billion in 2001 and US$651 billion in 2002, the lowest, since 1998 (World Investment Report 2003, of UNCTAD). As against this, FDI inflow in India had largely remained unaffected by the global decline in FDI inflows over the same period. Similarly, in China, the FDI inflows increased from US$40.77 billion in 2000 to US$46.84 billion in 2001 and US$ 52.70 billion in 2002. India and China have some significant differences in the FDI performance (Box 7.1).

Table 7.15 : Foreign Direct Investment Inflows and Exports in Selected Asian Developing Countries in the years 2001 and 2002

(Billion US $)

	2001		2002	
	FDI	Exports	FDI	Exports
China	46.84	266.09	52.70	325.59
	(5.7)	(4.3)	(8.1)	(5.1)
Hong Kong	23.77	189.89	13.72	200.09
	(2.9)	(3.1)	(2.1)	(3.1)
India	3.4	43.34	3.45	49.31
	(0.4)	(0.7)	(0.5)	(0.8)
Indonesia	-3.27	56.44	-1.52	58.12
	(-0.4)	(0.9)	(-0.2)	(0.9)
Korea	3.52	150.43	1.97	162.47
	(0.4)	(2.5)	(0.3)	(2.5)
Malaysia	0.55	88.00	3.20	93.27
	(0.1)	(1.4)	(0.5)	(1.5)
Philippines	0.98	32.66	1.11	36.50
	(0.1)	(0.5)	(0.2)	(0.0)
Singapore	10.94	121.75	7.66	125.18
	(1.2)	(2.0)	(1.2)	(2.0)
Srilanka	0.08	4.81	0.24	4.70
	(0.0)	(0.1)	(0.0)	(0.1)
Thailand	3.81	65.11	1.07	68.77
	(0.5)	(1.1)	(0.2)	(1.1)
Developing economies	209.43	2254.78	162.15	2428.44
	(25.4)	(36.8)	(24.9)	(37.8)
World	823.82	6128.90	651.19	6417.20

Notes : Figures in brackets are percent share to world total.

Source:

1. **World Investment Report- 2003, UNCTAD.**
2. **International Financial Statistics, May, 2004**.

Box 7.1 : Differences in FDI performance between China and India

- FDI inflows to China grew from US$3.5 billion in 1990 to US$52.7 billion in 2002; excluding round-tripping, China's FDI inflows could fall to US$40 billion. Those to India rose from US$0.4 billion to US$3.45 billion during the same time period. Even with these adjustments, China attracted about fifteen times more FDI than India in 2002.
- FDI has contributed to the rapid growth of China's merchandise exports, at an annual rate of 15 per cent from 1989 to 2001. In 1989, foreign affiliates accounted for less than 9 per cent of Chinese exports; by 2002 they provided half. In some high-tech industries in 2000, the share of foreign affiliates in exports was over 90 per cent, for example, electronics circuits (91 per cent) and mobile phones (96 per cent).
- In India, by contrast, FDI has been much less important in driving export growth, except in information technology. FDI in Indian manufacturing has been and remains domestic market-seeking. FDI accounted for only 3 per cent of India's exports in the early 1990s (World Investment Report 2002, pp.154-163). Even today, FDI is estimated to account for less than 10 per cent of India's manufacturing exports.
- On the basic economic determinants of inward FDI, China does better than India. China's total and per capita GDP are higher than India's, making it more attractive for market seeking FDI. China has higher literacy and education rates making it more attractive to efficiency-seeking investors. China has large natural resource endowments. In addition, China's physical infrastructure is more competitive, particularly in the coastal areas (CUTS 2003, Marubeni Corporation Economic Research Institute 2002). But, India may have an advantage in technical manpower, particularly in information technology. It also has better English language skills.
- Some of the differences in competitive advantages of the two countries are illustrated by the composition of their inward FDI flows. In ICT, China has become a key centre for hardware design and manufacturing by such companies as Acer, Ericsson, General Electric, Hitachi Semiconductors, Hyundai, Electronics, Intel, LG Electronics, Microsoft, Mitac International Corporation, Motorola, NEC, Nokia, Philips, Samsung Electronics, Sony, Taiwan Semiconductor Manufacturing, Toshiba and other major electronics Trans-National Corporations (TNCs). India, on the other hand, specializes in IT services, call centers, business back-office operations and R&D.
- Rapid growth in China has increased the local demand for consumer durables and non durables, such as home appliances, electronics equipment, automobiles, housing and leisure. This rapid growth in local demand, as well as competitive business environment and infrastructure, have attracted many market-seeking investors. It has also encouraged the growth of many local indigenous firms that support manufacturing.
- Other determinants related to FDI attitudes, policies and procedures also explain why China does better in attracting FDI. China has "more business-oriented" and more FDI-friendly policies than India (AT Kearney 2001). China's FDI procedures are easier, and decisions can be taken rapidly. China has more flexible labour laws, a better labour climate and better entry and exit procedures for business.
- A recent business environment survey indicated that China is more attractive than India in the macroeconomic environment, market opportunities and policy towards FDI. India scored better on the political environment, taxes and financing (EIU 2003a). A confidence tracking survey in 2002 indicated that China was the top FDI destination, displacing the United States for the first time in the investment plans of the TNCs surveyed; India came 15th (A T Kearney 2002).

Source : World Investment Report, 2003, UNCTAD

7.42 Table 7.16 shows the total amount approved and the inflows of FDI in India. It indicates that the FDI inflows in India have increased over the years, peaked at US$4.74 billion in 2000-01, and declined thereafter to US$3.73 billion in 2002-03 and further to US$3.57 billion in 2003-04. The amount of FDI approved also showed a declining trend from its peak of US$9.89 billion in 2000-01.

7.43 Table 7.17 shows the share of top ten countries in India's FDI inflows (in US$ terms) during January, 1991 to March, 2004. The biggest contributing countries are Mauritius (34.48 per cent) followed by USA (16.56 per cent), Japan (7.63 per cent), Netherlands (7.04 per cent) and U.K. (6.88 per cent).

Table 7.16 : FDI approvals and inflows

(Amount Rs. in crore/US$ in billion)

Year (April-March)	No. of Approvals Total	Technical	Financial	Amount of FDI Approved	Percentage change over Previous Year	Amount of FDI Inflows	Percentage change over Previous
1997-98	2,157	629	1,528	Rs. 42,992.02 (US $ 11.78)	-	Rs. 16,142,94 (US $ 4.41)	-
1998-99	1,831	564	1,267	Rs. 33,920.59 (US $ 8.42)	- 21.10	Rs. 14,279.80 (US $ 3.54)	- 11.54
1999-00	2,287	484	1,803	Rs. 21,654.32 (US $ 5.13)	- 36.16	Rs. 15,209.57 (US $ 3.60)	+ 6.51
2000-01	2,156	411	1,745	Rs. 43,038.71 (US $ 9.89)	+ 98.75	Rs. 20,590.64 (US $ 4.74)	+ 35.38
2001-02	2,347	281	2,066	Rs. 20,312.45 (US $ 4.46)	- 52.80	Rs. 21,497.67 (US $ 4.69)	+ 7.66
2002-03	2,051	293	1,758	Rs. 7,928.26 (US $ 1.66)	- 60.97	Rs. 17,768.28 (US $ 3.73)	- 17.35
2003-04	1,929	299	1,630	Rs. 6,833.31 (US $ 1.49)	- 13.81	Rs. 16,409.28 (US $ 3.57)	- 7.65

Source : Ministry of Commerce & Industry (Department of Industrial Policy & Promotion).

Table 7.17 : Share of top investing countries in FDI inflows

(January, 1991 to March, 2004)

Amount in Rs crore (US $ in Billion)

Country	Jan.-1991 to Dec. 1999	2000 (Calender Year)	2001 (Calender Year)	2002 (Calender Year)	2003 (Calender Year)	2004 (Jan.-Mar.)	Amount of FDI Inflows in Rupees (In US $)	Percentage to total in rupee terms (In US $ terms)
1 Mauritius	12,465.90 (3.42)	3,568.65 (0.83)	7,503.61 (1.67)	7,284.46 (1.52)	2,585.93 (0.56)	412.18 (0.09)	33,820.73 (8.09)	35.21 (34.48)
2 USA	8,354.23 (2.31)	1,799.31 (0.42)	1,654.13 (0.37)	1,357.20 (0.28)	1,904.00 (0.41)	341.05 (0.07)	15,409.92 (3.89)	16.05 (16.56)
3 Japan	2,969.37 (0.82)	985.69 (0.23)	996.54 (0.22)	1,980.46 (0.41)	434.39 (0.09)	64.19 (0.01)	7,430.64 (1.79)	7.74 (7.63)
4 UK	2,227.90 (0.66)	281.48 (0.07)	1,284.02 (0.29)	1,698.81 (0.35)	862.90 (0.19)	293.45 (0.06)	6,648.56 (1.61)	6.92 (6.88)
5 Netherlands	2,174.33 (0.61)	546.80 (0.13)	1,031.55 (0.23)	747.56 (0.16)	1,161.88 (0.25)	1,277.31 (0.28)	5,969.43 (1.65)	6.22 (7.04)
6 Germany	2,351.08 (0.66)	371.47 (0.09)	598.13 (0.13)	662.93 (0.14)	362.50 (0.08)	165.99 (0.04)	4,512.30 (1.13)	4.70 (4.83)
7 France	963.81 (0.27)	341.58 (0.08)	595.13 (0.13)	530.15 (0.11)	164.25 (0.04)	61.65 (0.01)	2,656.57 (0.64)	2.77 (2.74)
8 Korea (South)	2,092.09 (0.57)	76.17 (0.12)	20.30 (0.01)	181.44 (0.04)	112.86 (0.02)	3.40 (0.00)	2,489.66 (0.66)	2.59 (2.80)
9 Singapore	1,239.32 (0.34)	501.52 (0.12)	160.66 (0.04)	226.23 (0.05)	168.05 (0.04)	52.26 (0.01)	2,348.04 (0.59)	2.44 (2.52)
10 Switzerland	795.12 (0.23)	187.22 (0.04)	178.02 (0.04)	251.69 (0.05)	428.96 (0.09)	1.72 (0.00)	1,842.79 (0.46)	1.92 (1.97)
Total of all Countries (excluding ADRs/GDR etc.)	41,380.64 (11.49)	10,092.38 (2.35)	15,841.80 (3.52)	16,123.36 (3.36)	9,564.04 (2.08)	3,034.11 (0.66)	96,036.33 (23.45)	N.A. N.A.

Note : 1. Total amount includes FDI inflows received through FIPB+SIA+RBI routes. acquisition of shares, RBI's NRI schemes, stock swapped, amount on account of ADRs/GDRs & advance pending for issue of shares.

2. Ranking of above countries is worked out on the basis of cumulative FDI inflows during January 1991 to March 2004.

3. Percentage figures do not take into account the amount of FDI Inflows for ADRs/GDRs/FCCBs, RBI's-NRI Schemes, acquisition of existing shares (for the period 1996-1999 only), stock swapped & advance pending for allotment of shares, as these are not categorised country-wise during the year 1991-2004 (upto March).

4. Country-wise FDI inflows figures during the year 2000-2003 (upto March) includes FDI inflows received through FIPB/SIA route, RIB's automatic routes and acquisition of existing shares only.

7.44 Table 7.18 shows the breakup of inward FDI in terms of industries.

Table: 7.18 : Sectors attracting highest FDI approvals with inflows (January 1991 to March 2004)

Amount Rupees in crore (US $ in billion)

Rank	Sector	No. of FDI approval	FDI approved	Percentage of total FDI approved	FDI Inflows	Percentage of total FDI Inflows* (in rupees terms)	Percentage of inflows over approval (in terms of rupees
1.	Energy	701	77,828 (20.99)	26.62	9,802 (2.32)	10.21	12.59
	Of which						
	Power	362	43,703 (11.90)	14.95	-	-	-
	Oil Refining	339	34,125 (9.09)	11.67			
2.	Telecommunications	803	57,328 (15.43)	19.61	10,725 (2.56)	11.17	18.71
3.	Electrical Equipment (including computer software & electronics)	4,495	28,072 (7.29)	9.94	13,930 (3.32)	14.50	47.92
4.	Transportation	1,069	21,966 (5.73)	7.51	11,517 (2.78)	11.99	52.43
5.	Services sector	1,102	19,261 (5.12)	6.59	8,134 (2.04)	8.47	42.23
6.	Metallurgical industries	407	15,534 (4.27)	5.31	1,254 (0.31)	1.31	8.07
7.	Chemicals (other than fertilizers)	1,053	13,090 (3.73)	4.48	5,692 (1.49)	5.93	43.48
8.	Food & food processing	771	9,620 (2.77)	3.29	4,346 (1.09)	4.53	45.18
9.	Hotels & Tourism	504	5,215 (1.45)	1.78	899 (2.14)	0.87	17.24
10.	Textiles	641	3,517 (1.02)	1.20	1,163 (0.31)	1.21	33.07

Note: * Percentage figures do not take into account the amount of FDI Inflows for ADRs/GDRs/FCCBs, RBI's-NRI Schemes, acquisition of existing shares (upto 1999), stock swapped & advance pending for allotment of shares, as these are not categorised sector-wise.

7.45 Table 7.19 shows that the five top states attracting major shares of FDI approvals were Maharashtra (17.48 per cent), Delhi (12.06 per cent), Tamil Nadu (8.58 per cent), Karnataka (8.26 per cent) and Gujarat (6.44 per cent).

Table: 7.19 : Share of top five states attracting FDI approvals (January 1991 to March 2004)

Rank	Name of State	No. of FDI approvals			Amount of FDI		Percentage with total FDI approved
		Total	Tech.	Financial	Rupees in crore	US $ in billion	
1	Maharashtra	4,816	1,308	3,508	51,114.68	13.18	17.48
2	Delhi	2,638	304	2,334	35,250.74	9.78	12.06
3	Tamil Nadu	2,607	613	1,994	25,071.77	6.52	8.58
4	Karnataka	2,467	494	1,973	24,138.44	6.15	8.26
5	Gujarat	1,204	556	648	18,837.30	4.81	6.44