

Survey of FDI in India

Sumon K. Bhaumik, CNEM

Laveesh Bhandari, NCAER

Subir Gokarn, CRISIL

Contents

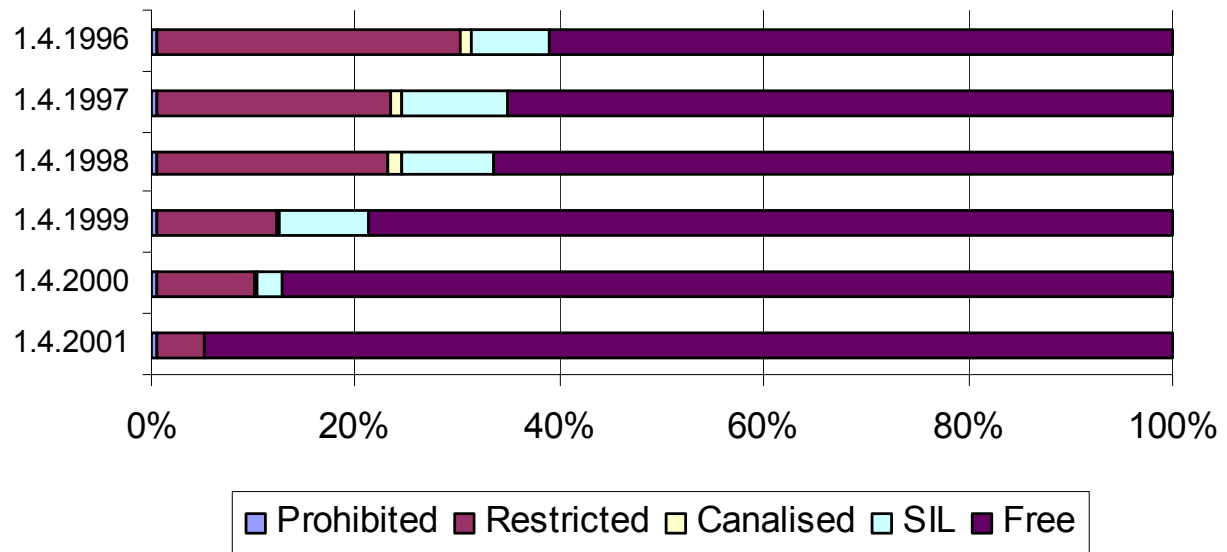
- Background
 - economic reforms since 1991-92
 - state of the economy (data)
- Sample
- Mode of entry
- Resource requirements, source of resources and perceptions about local resources
- Institutions and business environment
- Market orientation
- Performance
- Spillovers
- Concluding views

Economic reforms

- Tax reforms:
 - reduction in personal and corporate tax rates
 - rationalization of indirect taxes
 - attempts at introduction of VAT
- Trade reforms:
 - majority of the quantitative restrictions were removed over time
 - peak tariff rates came down from 350% in 1990-91 to 35% in 2000-01
- Elimination of licensing process:
 - by the end of financial year 1997-98, the number of industries requiring compulsory licensing declined to 7

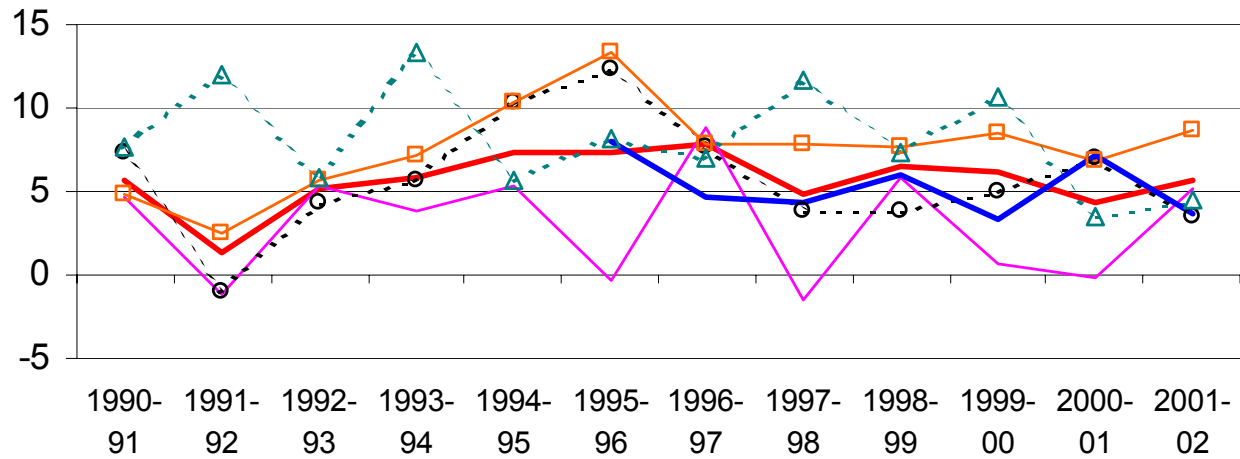
- Liberalization of FDI regulations:
 - MNCs allowed majority stake in a number of industries, including up to 100% stake in some industries
- Financial liberalization:
 - interest rates and exchange rates became market determined
 - progressive liberalization of the capital account of BOP
 - entry restrictions and restrictions pertaining to branch networks removed for the banking sector
 - banks subjected to prudential norms
- Institution building:
 - independent central bank
 - regulatory organizations like SEBI, IRAI and TRAI
 - reworking old laws like FERA and MRTP, and drafting new legislations and regulations governing issues like M&A

Quantitative restrictions (10-digit tariff lines)



State of the economy

GDP growth and inflation rate



— GDP growth

— Agriculture

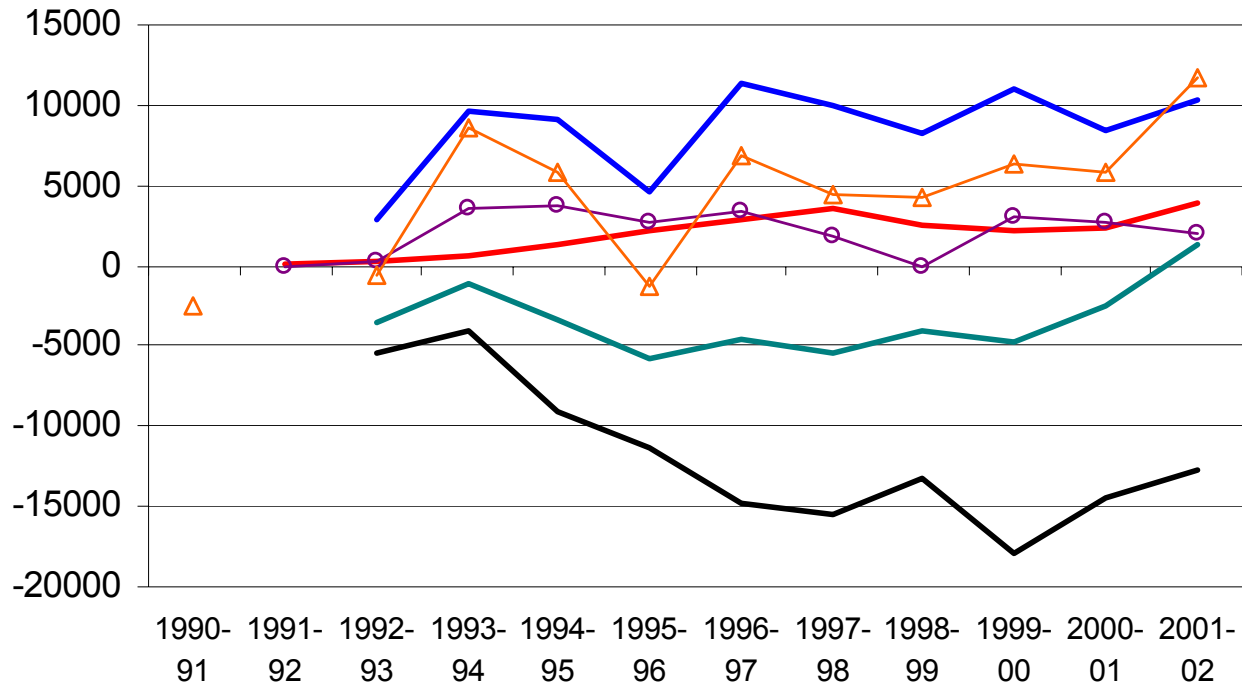
- - - ○ - - - Manufacturing

— □ — Transport, communication and trade

- - - △ - - - Financial and business services, and real estate

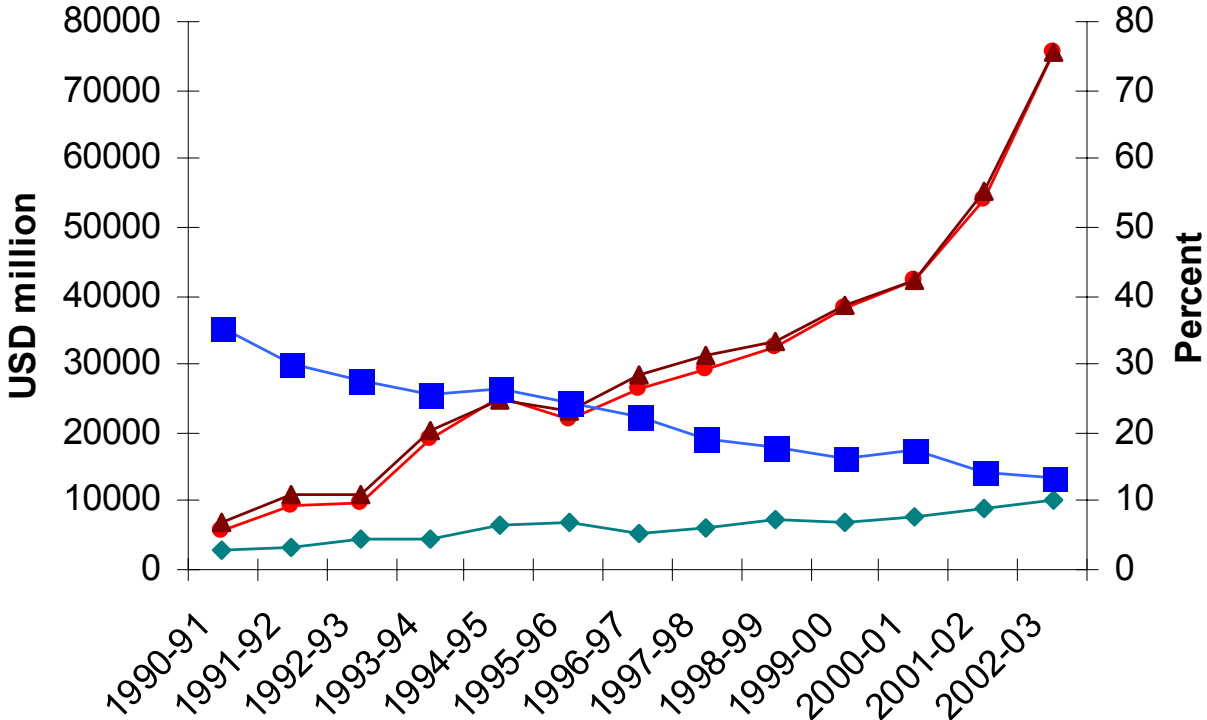
— Inflation (based on wholesale price index)

External sector (USD million)



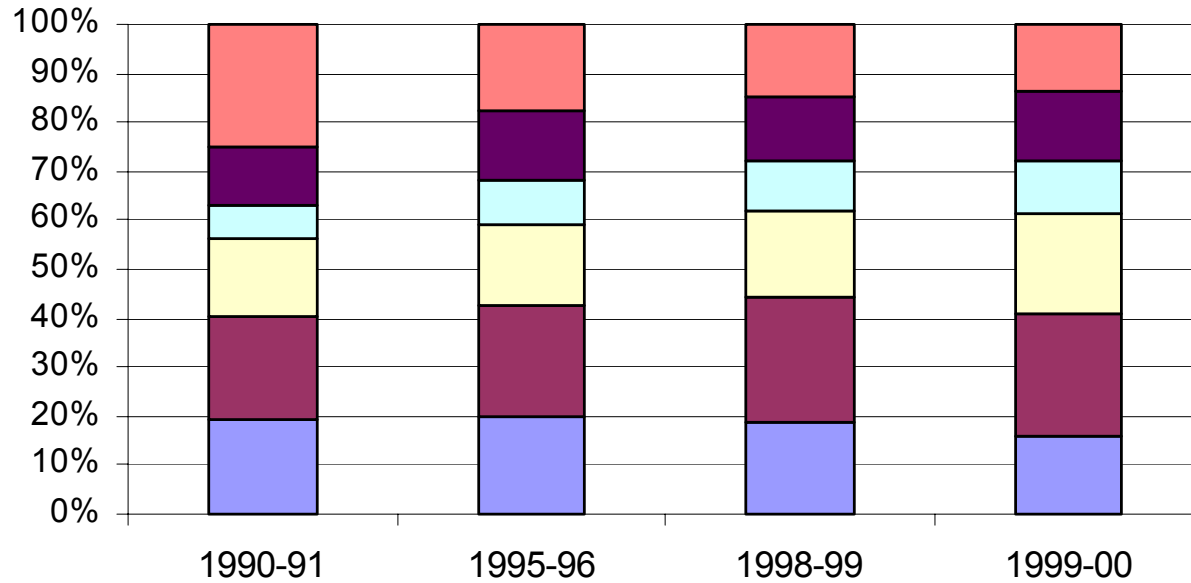
— Trade balance
— Current account balance
— Capital account balance
— Direct investment (FDI)
— Portfolio investment
— Overall balance

Foreign exchange reserves



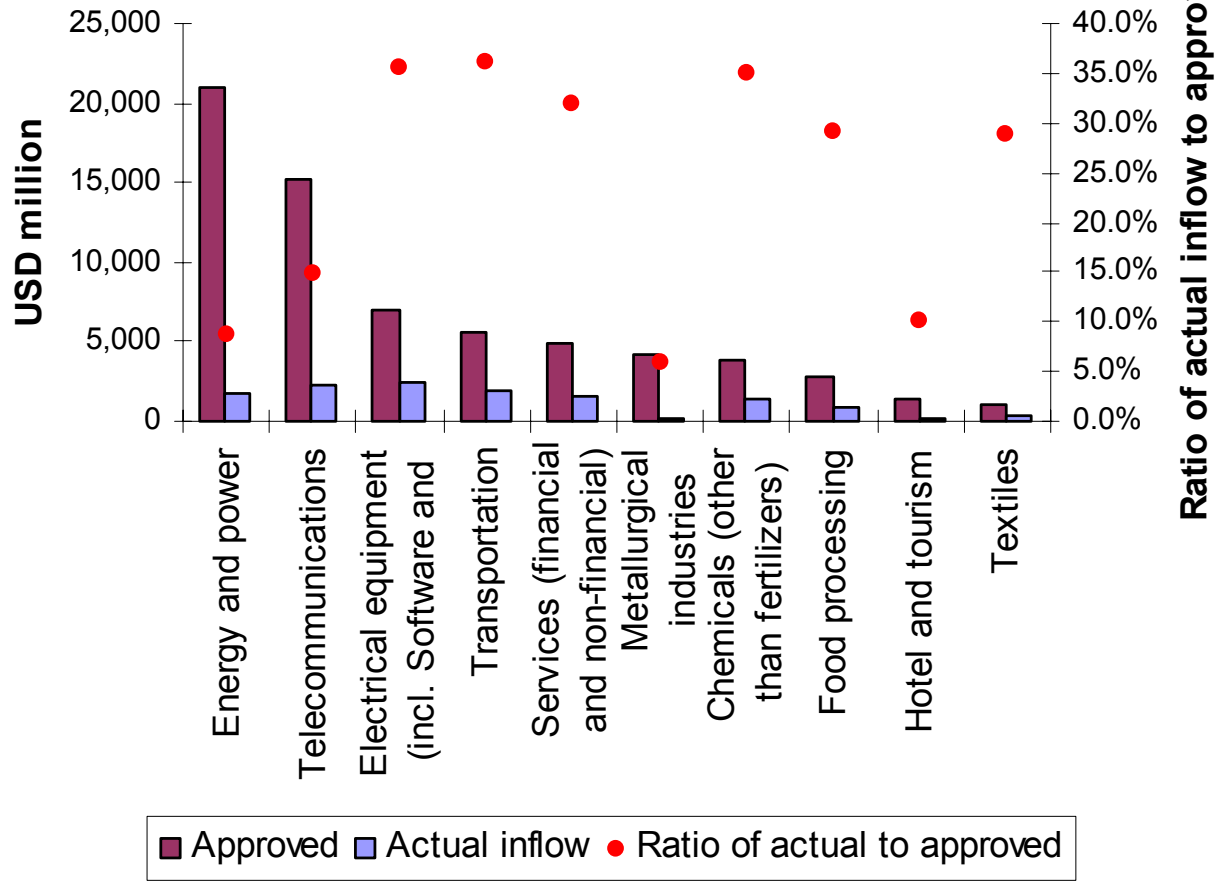
- Foreign exchange reserves (USD million)
- ◆ Import cover (months)
- ▲ Reserves as percent of external debt
- Debt service ratio

Composition of exports



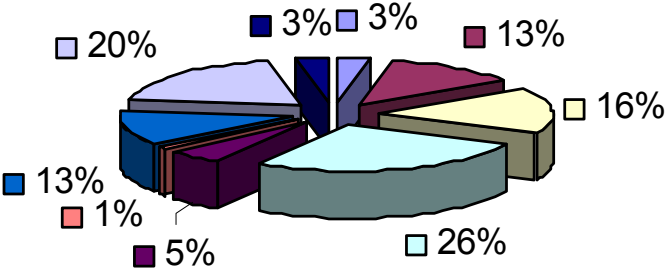
- Other
- Machinery, transport equipment and metal manufactures
- Chemicals
- Gems and jewellery
- Textiles, leather and leather products
- Agricultural and allied products

FDI approval and inflows (August 1991 - October 2002)



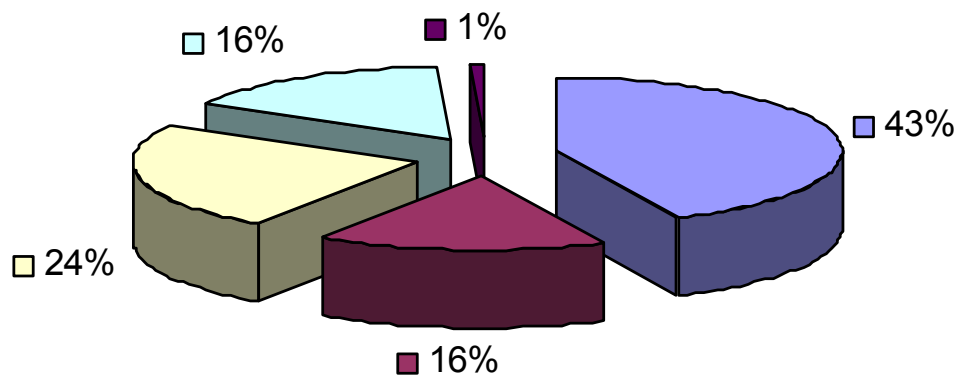
Sample

Distribution of firms across sectors



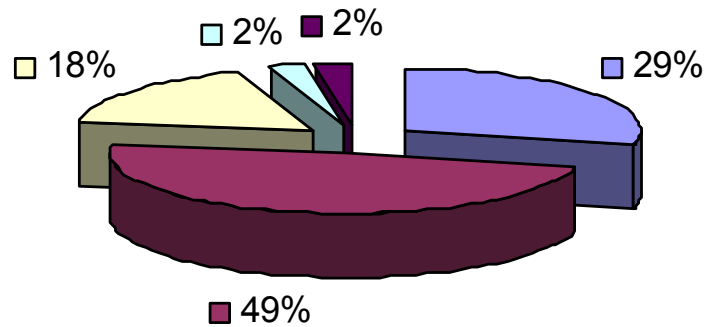
- Primary
- Intermediate goods
- Infrastructure (incl. Construction)
- Financial and business services
- Pharmaceuticals
- Basic consumer goods
- Machines and equipment
- Trade, tourism etc.
- IT

Size distribution of local affiliates



■ 10 - 50 ■ 51 - 100 ■ 101 - 250 ■ 251 - 1000 ■ greater than 1000

Home regions of the parent MNCs



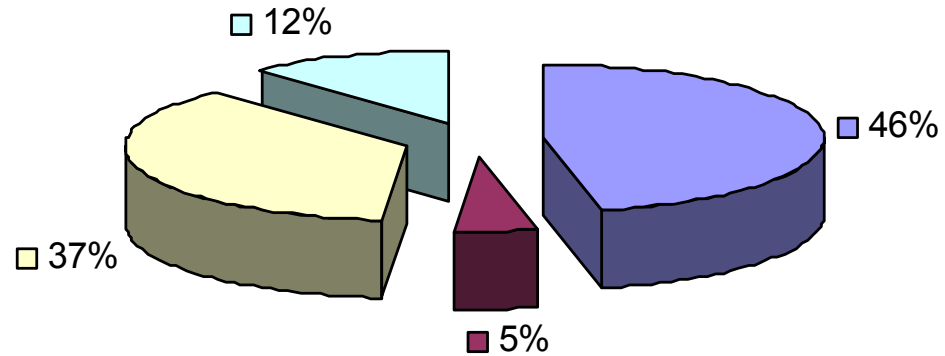
- North America
- Europe
- Japan + East Asia
- MENA
- Others (incl. Australia)

Characteristics of the MNCs

	Categories						
	1	2	3	4	5	6	7
Worldwide employment (thousands)	38.3 (< 1)	37.0 (1 - 10)	19.8 (10-00)	4.9 (>100)			
Local turnover (% of global turnover)	20.8 (0 - 0.1)	26.7 (0.1-0.5)	13.3 (0.5 - 2)	15.8 (2 - 5)	17.5 (5 - 20)	5.8 (>20)	
R&D expenditure (% of turnover)	38.1 (0 - 0.5)	12.4 (0.5 - 1)	6.7 (1 - 2)	16.2 (2 - 4)	11.4 (4 - 8)	3.8 (8 - 15)	11.4 (>15)
Ad expenditure (% of turnover)	49.5 (0 - 0.5)	10.7 (0.5 - 1)	10.7 (1 - 2)	3.9 (2 - 4)	10.7 (4 - 8)	9.7 (8 - 15)	3.9 (>15)
Emerging regions experience (number of regions)	22.5 (None)	34.9 (1)	20.2 (2)	10.1 (3)	12.4 (4)		
Extent of diversification	10.9 (C)	35.2 (D)	53.9 (F)				

Mode of entry

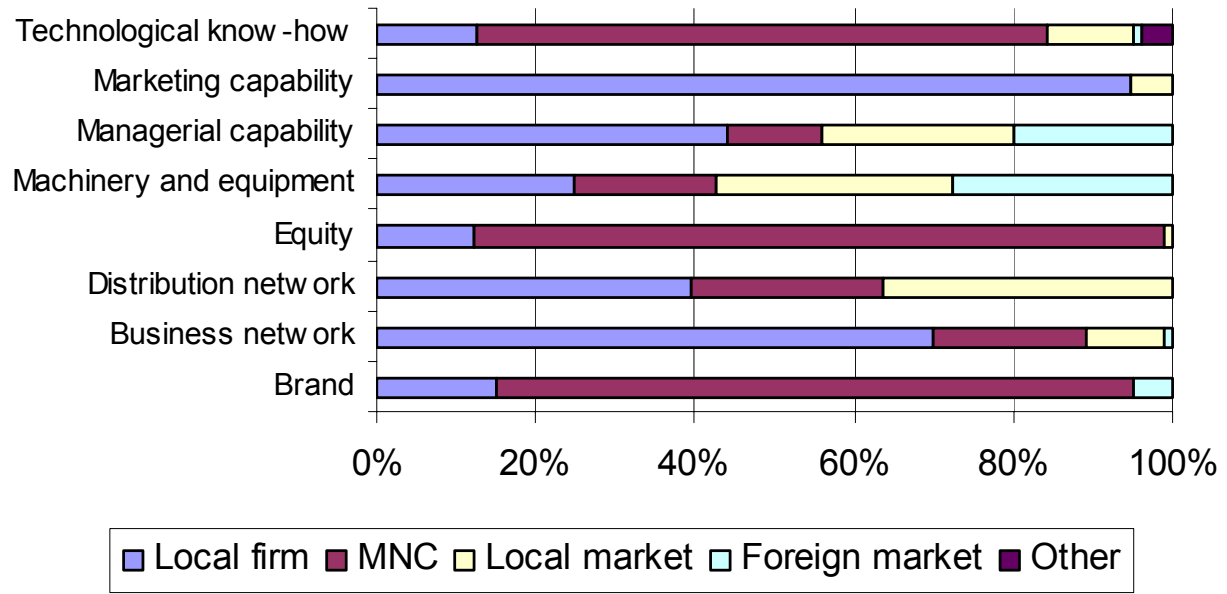
Distribution of mode of entry of MNCs



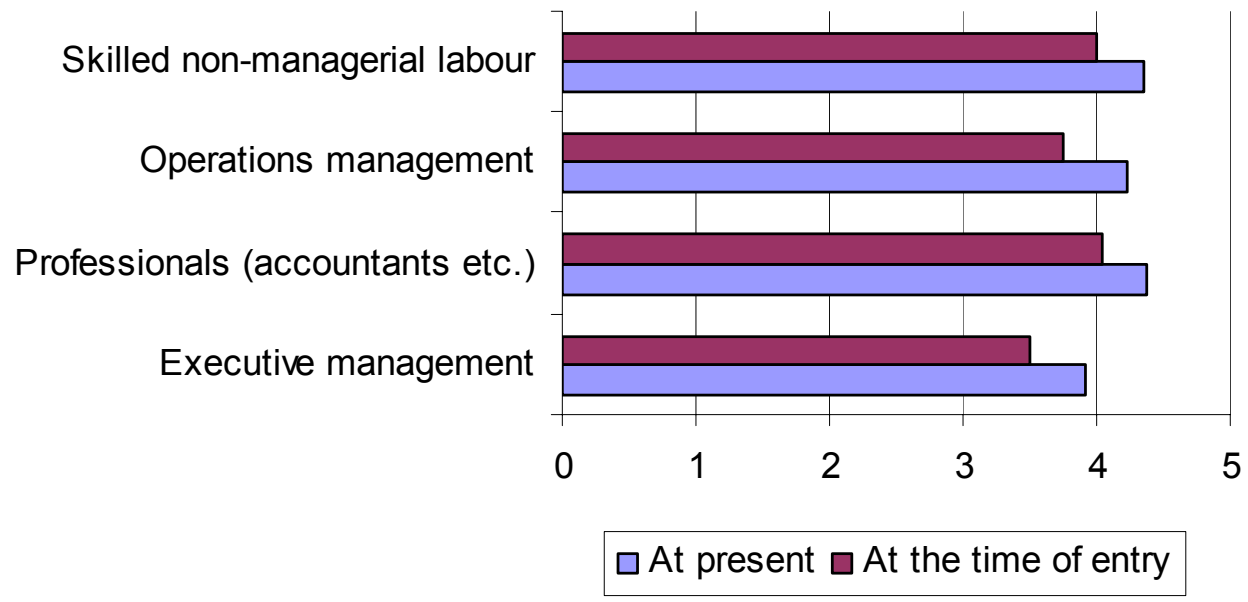
■ Greenfield ■ Acquisition ■ Joint Venture ■ Partial Acquisition

Resources

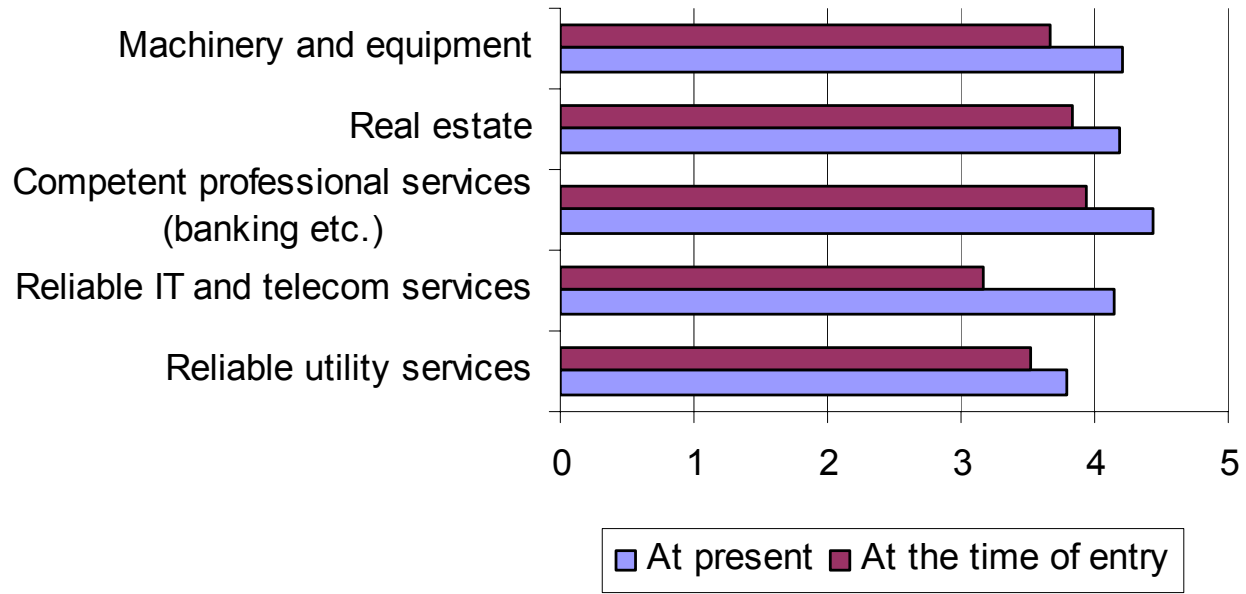
Source of key resources



Perceptions about quality of local labour

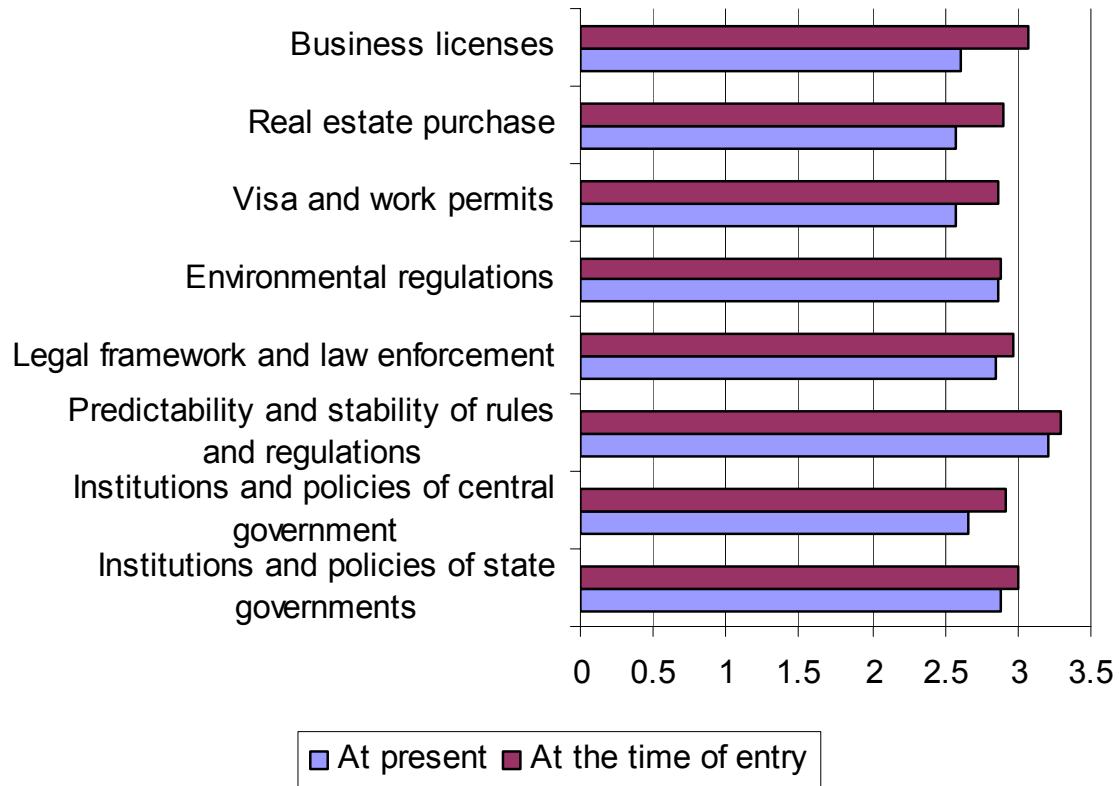


Perceptions about local inputs



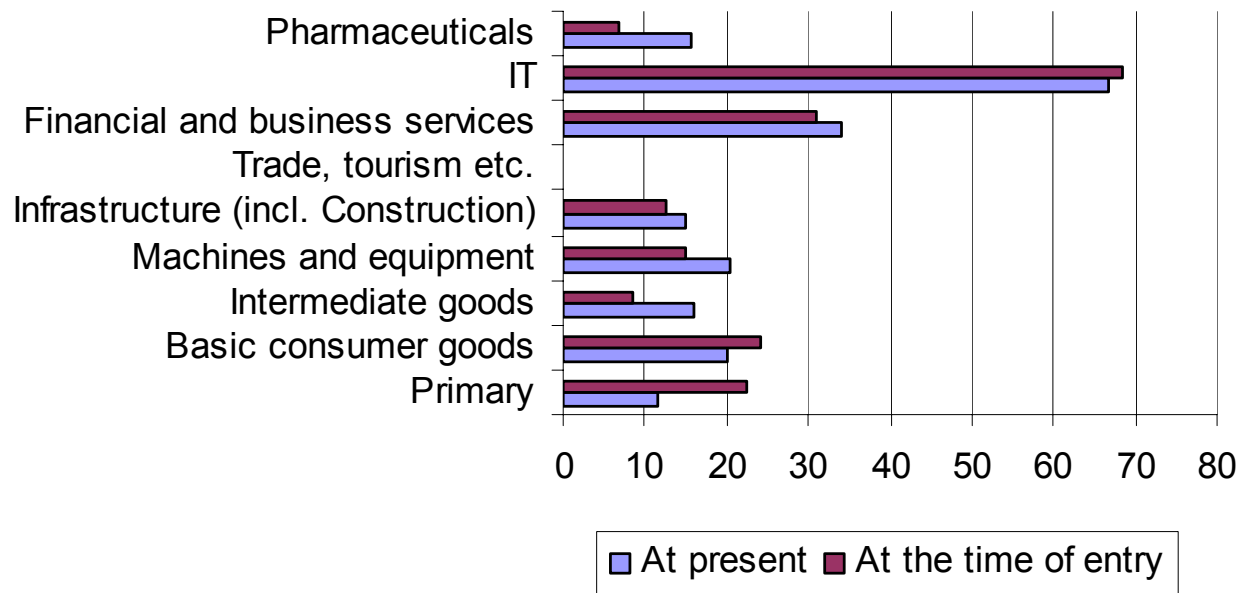
Institutions and business environment

Perceptions about local institutions and business environment (scale reversed)



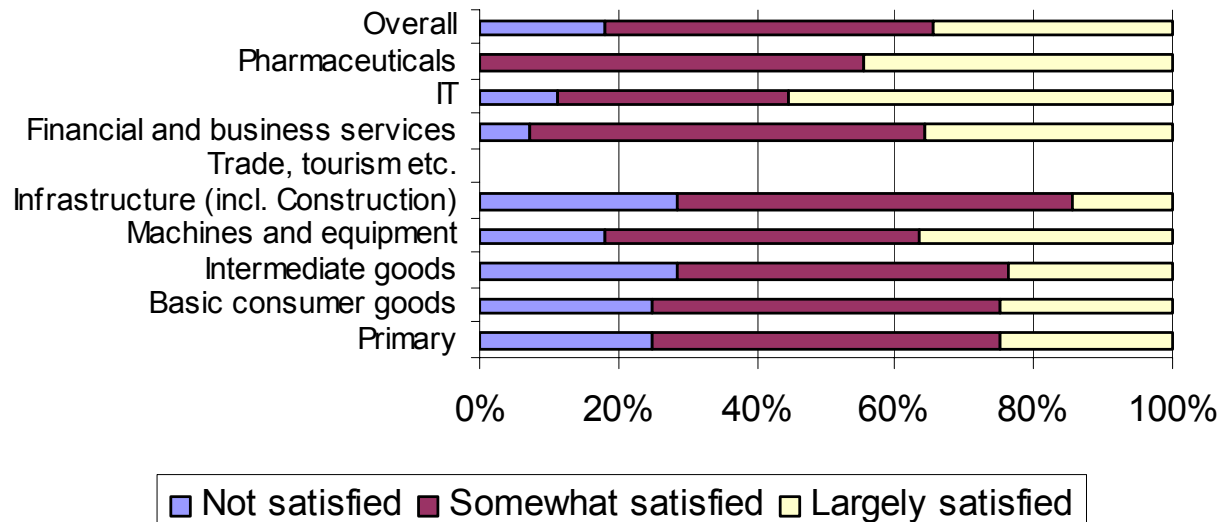
Market orientation

Proportion of output exported



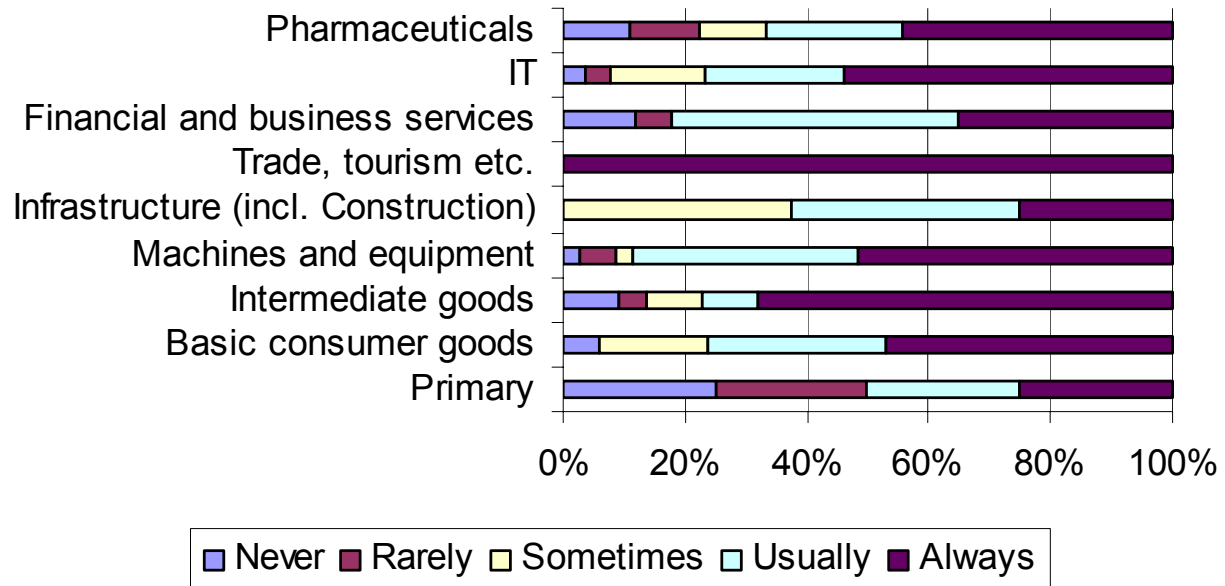
Performance

Performance of MNC affiliates relative to expectations

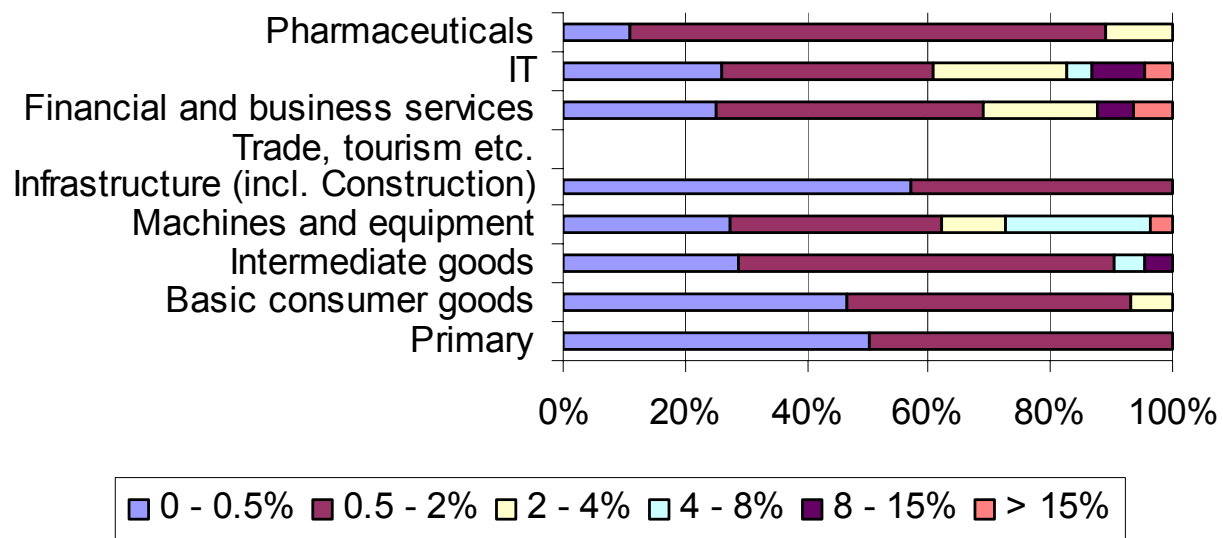


Spillovers

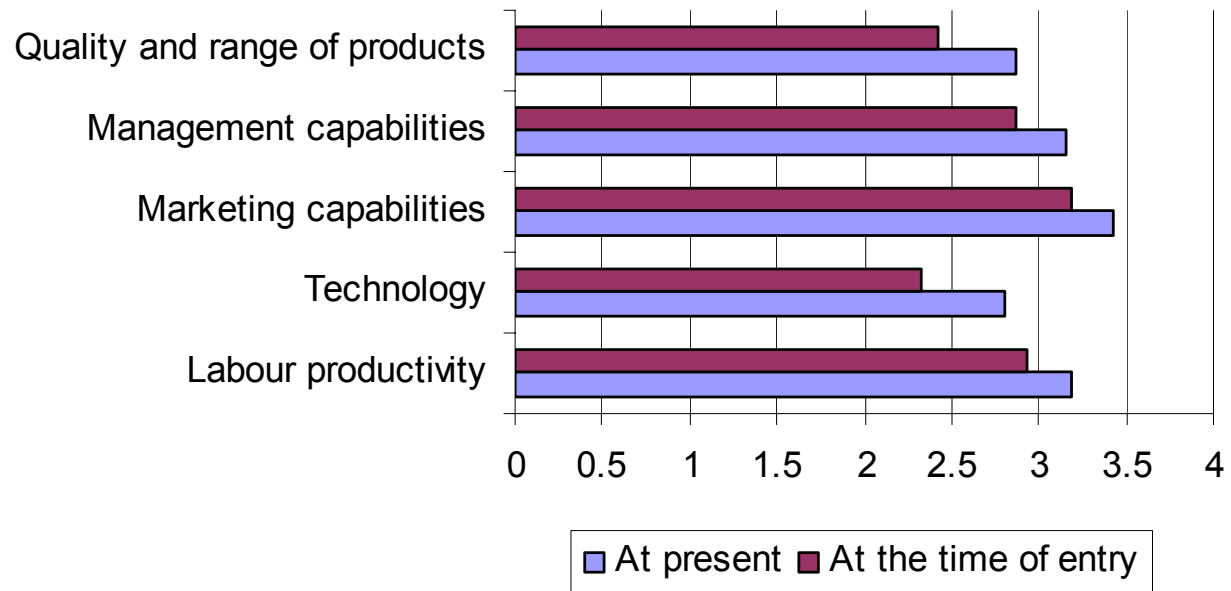
Ease of availability of technology from parent MNC



Proportion of revenue spent on training by local affiliate



Perceptions about the local industry



Concluding views

- A majority of the MNCs are, by and large satisfied with the performance of their Indian operations, both in old economy sectors like machines and tools, and in the new economy sectors like IT.
- The institutions and policies of neither the central nor the state governments were viewed as obstacles to carrying on business in India.

- MNCs feel that there has been an improvement in the quality of local inputs over time.
- While MNC affiliates operating in India feel that obtaining managerial and technological resources from the parent would, by and large, be easy, most of the MNCs are not R&D-intensive, and the extent of training provided to local employees is not significant.