Survey of FDI in India

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  – economic reforms since 1991-92
  – state of the economy (data)
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• Mode of entry
• Resource requirements, source of resources and perceptions about local resources
• Institutions and business environment
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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)

Prohibited
Restricted
Canalised
SIL
Free
State of the economy
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)

USD million

Ratio of actual inflow to approved

Approved
Actual inflow
Ratio of actual to approved
Sample
Distribution of firms across sectors

- Primary: 20%
- Basic consumer goods: 3%
- Intermediate goods: 3%
- Machines and equipment: 13%
- Infrastructure (incl. Construction): 16%
- Trade, tourism etc.: 26%
- Financial and business services: 13%
- IT: 5%
- Pharmaceuticals: 1%
Size distribution of local affiliates

- 43% greater than 1000
- 24% 10 - 50
- 16% 51 - 100
- 16% 101 - 250
- 1% 251 - 1000
Home regions of the parent MNCs

- North America: 49%
- Europe: 2%
- Japan + East Asia: 2%
- MENA: 18%
- Others (incl. Australia): 2%

Legend:
- North America
- Europe
- Japan + East Asia
- MENA
- Others (incl. Australia)
## Characteristics of the MNCs

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Categories</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<th>7</th>
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<tbody>
<tr>
<td>Worldwide employment</td>
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<td>38.3</td>
<td>37.0</td>
<td>19.8</td>
<td>4.9</td>
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<td>(thousands)</td>
<td></td>
<td>(&lt; 1)</td>
<td>(1 - 10)</td>
<td>(10-00)</td>
<td>(100)</td>
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<tr>
<td>Local turnover</td>
<td></td>
<td>20.8</td>
<td>26.7</td>
<td>13.3</td>
<td>15.8</td>
<td>17.5</td>
<td>5.8</td>
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<td>(% of global turnover)</td>
<td></td>
<td>(0 - 0.1)</td>
<td>(0.1-0.5)</td>
<td>(0.5 - 2)</td>
<td>(2 - 5)</td>
<td>(5 - 20)</td>
<td>(&gt;20)</td>
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<td>R&amp;D expenditure</td>
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<td>38.1</td>
<td>12.4</td>
<td>6.7</td>
<td>16.2</td>
<td>11.4</td>
<td>3.8</td>
<td>11.4</td>
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<tr>
<td>(% of turnover)</td>
<td></td>
<td>(0 - 0.5)</td>
<td>(0.5 - 1)</td>
<td>(1 - 2)</td>
<td>(2 - 4)</td>
<td>(4 - 8)</td>
<td>(8 - 15)</td>
<td>(&gt;15)</td>
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<td>Ad expenditure</td>
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<td>49.5</td>
<td>10.7</td>
<td>10.7</td>
<td>3.9</td>
<td>10.7</td>
<td>9.7</td>
<td>3.9</td>
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<tr>
<td>(% of turnover)</td>
<td></td>
<td>(0 - 0.5)</td>
<td>(0.5 - 1)</td>
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<td>(2 - 4)</td>
<td>(4 - 8)</td>
<td>(8 - 15)</td>
<td>(&gt;15)</td>
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<td>Emerging regions experience</td>
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<td>22.5</td>
<td>34.9</td>
<td>20.2</td>
<td>10.1</td>
<td>12.4</td>
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<tr>
<td>(number of regions)</td>
<td></td>
<td>(None)</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
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<td>Extent of diversification</td>
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<td>(D)</td>
<td>(F)</td>
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Mode of entry
Distribution of mode of entry of MNCs

- Greenfield: 46%
- Acquisition: 12%
- Joint Venture: 5%
- Partial Acquisition: 37%
Resources
Perceptions about quality of local labour

- Skilled non-managerial labour
- Operations management
- Professionals (accountants etc.)
- Executive management

At present vs. At the time of entry
Perceptions about local inputs

- Machinery and equipment: At present score 4, At the time of entry score 3.5
- Real estate: At present score 4, At the time of entry score 3.5
- Competent professional services (banking etc.): At present score 4, At the time of entry score 3.5
- Reliable IT and telecom services: At present score 4, At the time of entry score 3
- Reliable utility services: At present score 3.5, At the time of entry score 3.25
Institutions and business environment
Perceptions about local institutions and business environment (scale reversed)

- Business licenses
- Real estate purchase
- Visa and work permits
- Environmental regulations
- Legal framework and law enforcement
- Predictability and stability of rules and regulations
- Institutions and policies of central government
- Institutions and policies of state governments

0 0.5 1 1.5 2 2.5 3 3.5

At present  At the time of entry
Market orientation
Proportion of output exported

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

At present vs. At the time of entry
Performance
Performance of MNC affiliates relative to expectations

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

Not satisfied  Somewhat satisfied  Largely satisfied
Spillovers
Ease of availability of technology from parent MNC

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

Color legend:
- Never
- Rarely
- Sometimes
- Usually
- Always
Proportion of revenue spent on training by local affiliate

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

Legend:
- 0 - 0.5%
- 0.5 - 2%
- 2 - 4%
- 4 - 8%
- 8 - 15%
- > 15%
Perceptions about the local industry

- Quality and range of products
- Management capabilities
- Marketing capabilities
- Technology
- Labour productivity

0 0.5 1 1.5 2 2.5 3 3.5 4

At present
At the time of entry
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.