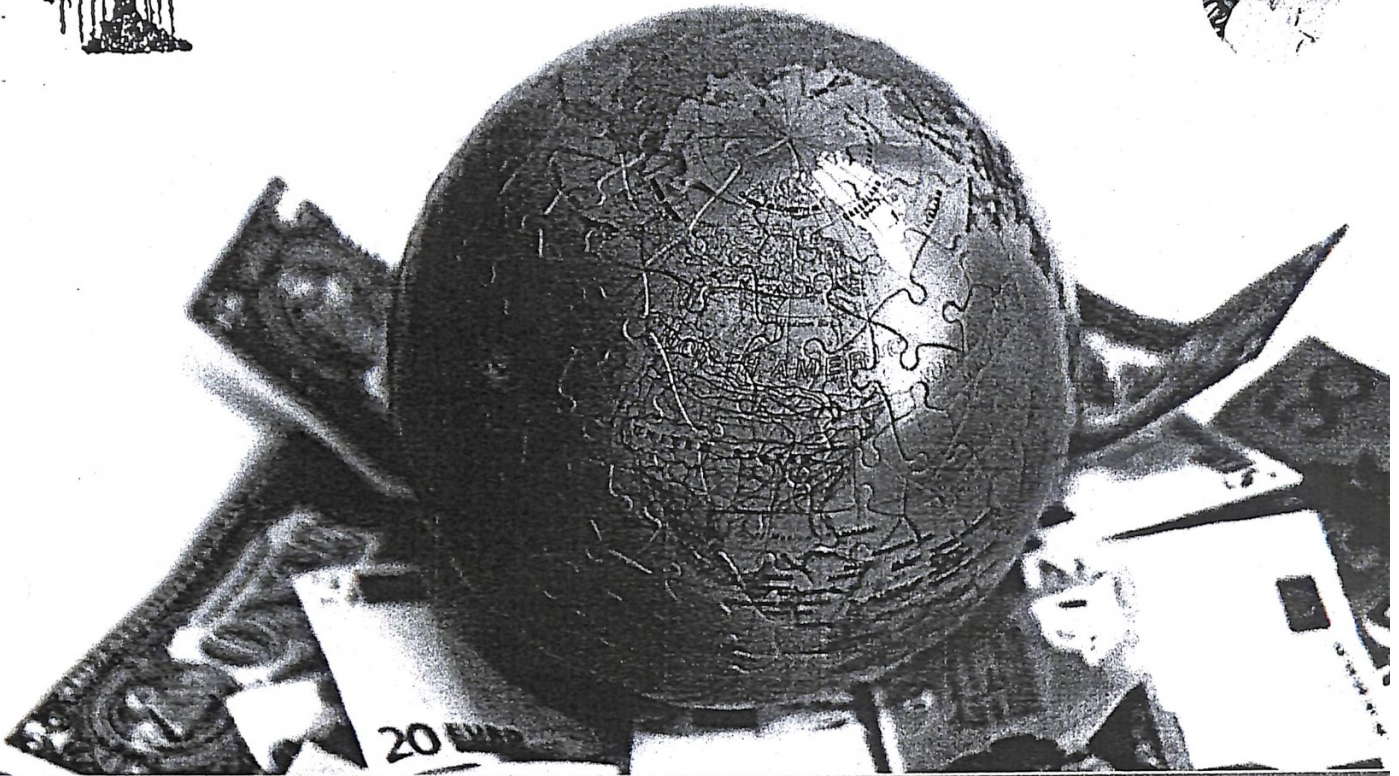




SNG



National Level Seminar on
FDI and Its Impact on the
Indian Entrepreneurs

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THE IMPACT OF FDI ON INDIAN MANUFACTURING INDUSTRIES

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Abstract:

Economic policy makers in most countries go out of their way to attract foreign Direct Investment (FDI). A high level of FDI inflows in an affirmation of the economic policies that the policymakers have been implementing as well as a stamp of approval of the future economic health of that particular country. It is clear that an intense global competition for FDI. India, has set up the India Brand Equity Foundation to try and attract that elusive FDI dollar. In recent resolution on FDI, in the retail sector has been applauded by a large section both industry professionals and consumers despite the many voices debating the merits of allowing FDI in the current economic situation and its possible impact on the Indian retail and manufacturing environment. Since highly polluting industries have accounted for a substantive share of FDI inflows, we control for these industries to discern the differential impact of industry characteristics in the dirty manufacturing sector. As is quite apparent, the FDI policy is formulated with the objective of bringing in large funds to be invested in improving the study chain and back end of the retail sector and to ensure that the manufacturing sector also gains from large multi-brand retailers being forced to source 30% of their products (by value) from Indian Small and Medium Enterprises. Therefore, it is a great opportunity for India to upgrade its manufacturing and back end retail set-up.

KEY - WORDS: Foreign Direct Investment (FDI), Manufacturing Environment, Retail Sector, Small and Medium Enterprises.

OBJECTIVES OF THE STUDY:

Following are the objectives of the study

- 1) To study the science of FDI inflows in India.
- 2) To evaluate the country wise sources of FDI.
- 3) To analyse the distribution of FDI within India.
- 4) To study the impact of FDI on Indian manufacturing Industries.

RESEARCH METHODOLOGY :

Study of this research paper is based on secondary data sources like reports, reference books journals, newspapers and websites.

Introduction:

Since the industrial policy reforms of 1991 and further amendments, during the nineties opened opportunities for FDI in India. During the nineties include opening up of new sectors for FDI (i.e construction and power), expansion of the list of high priority manufacturing industries for foreign investment; and increase in foreign equity limit to 51% in manufacturing and even more in certain other industries and removal of requirement of dividend balancing.

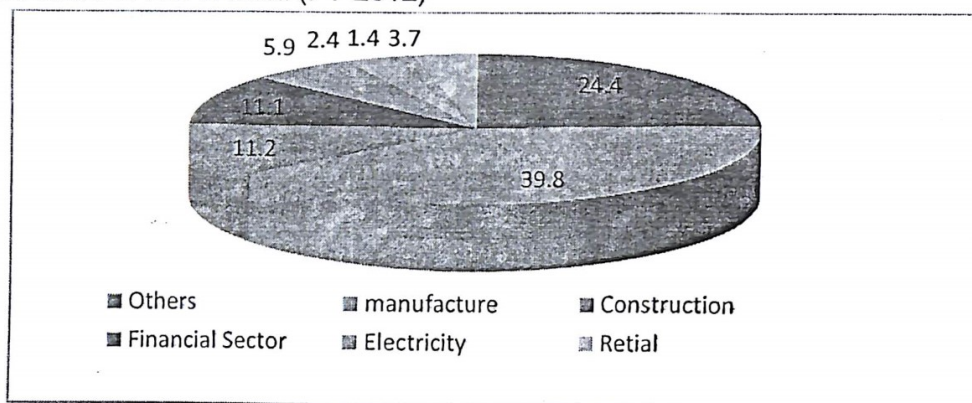
At the beginning of the year 2000, the government allowed foreign investment through automatic route in all industries for FDI or NRI or OCB's and this led to significant increase in FDI.

Scenario of FDI inflow in India :

During 200-01 the investment in India increased under automatic route. the total FDI inflows in India rose, from Rs. 122 billion in 2000 to Rs. 700 billion in 2010 (in constant prices Rs. 2004-05) while FDI has witnesses dramatic rise in the service sector. Moreover the FDI stock and output in the manufacturing sector in India through the 1990's was found to be mutually reinforcing. In recent years real FDI in India within manufacturing sector from top 10 investing countries has increased more than four times, from Rs. 46.3 billion in 2000 to Rs. 240.4 billion in 2010 (in constant prices 2004-05).

Within the manufacturing sector inbound investment in polluting industries has also increased significantly from Rs. 19.2 billion in 2000 to Rs. 81.6 billion in 2010 (in constant prices 2004-05).

The following pie chart shows the manufacturing industries has a lion's share of FDI to India. Sectorial share of FDI to India (FY 2012)



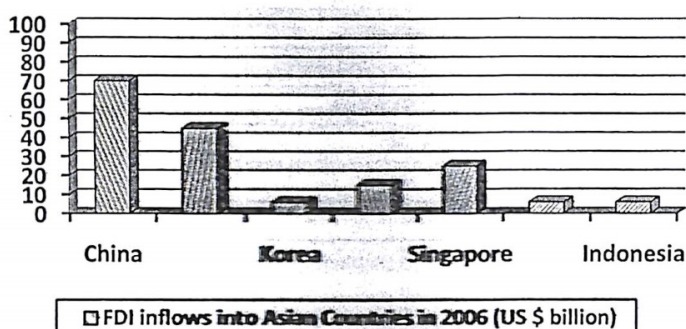
Data source: - RBI Annual Report 2012

The Indian government's plan to review the double - taxation avoidance agreement (DTAA) with Mauritius was meant to prevent misuse of the treaty and track illicit money allegedly stashed in the African island nations. However, the same is also expected to impact the Foreign Direct Investment (FDI) coming into India. Amongst the sectors that will be adversely impacted could be manufacturing and construction with the help of the above data, shows these two have the largest recipients of FDI in FY 2012, followed by Financial services and Power generation and distribution. Therefore, it is said that manufacturing has a lion's share of FDI to India.

Country wise sources of FDI :

Among countries, Mauritius has been the largest direct investor in India. Firms based in Mauritius invest over US \$ 20 billion in India between August 1991 and July 2007 or over two-fifth of total FDI inflows during that period.

The following chart show the FDI inflows into Asian countries in 2006 (US \$ billion)



However, this data is rather misleading. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. To take advantage of that situation, many companies have setup dummy companies in Mauritius before investing to India.

The United States (US) is the second largest investor in India. The total capital flows from the US was around US\$6 billion between August 1991 and July 2007, which accounted for 12 percent of the FDI inflows.

The following Table No. 1 shows the Top Country investors in India

Sr. No.	Name of the Country	Cumulative of FDI inflows, August 1991 to July 2007 (Us millions)	Share of FDI inflows , August 1991 to July 2007 (Percent)
1	Mauritius	20,808	41.90
2	US	6,125	12.00
3	UK	3,979	8.00
4	Netherlands	2789	5.60
5	Japan	2585	5.10
6	All other	13,297	27.40
	Total	49,573	100.00

Source : 40 (2007)

Distribution of FDI within India :

The foregoing data is based on both greenfield and mergers and acquisitions , However a recent study that examines any Greenfield project makes a largely similar set & points (US ITC - 2007)

The following Table No.2 shows the FDI Equity inflows by Region (January 2000 to July 2007)

Rank	RBI- Regional Office	State (s) covered	FDI inflows (US \$ millions)	share of Total (Percent)
1	Mumbai	Maharashtra, Dadara & Haveli, Daman & Div	9,594.6	24.64
2	New Delhi	Delhi , parts of UP and Haryana	9,194.2	23.55
3	Bangalore	Karnataka	2,824.2	7.21
4	Chennai	Tamil Nadu, Pondicherry	2774.2	7.17
5	Hyderabad	Andhra Pradesh	1509.8	3.88
6.	Ahmedabad	Gujarat	1092.9	2.85
7-16	All others		11,838.1	30.49
	Total		38,828.5	

Source : 40 (2007)

The above table No - 2 Shows that Mumbai and New Delhi have been the top performers with the majority of FDI inflows within India being heavily concentrated around these two major cities Chennai, Bangalore, Hyderabad and Ahmedabad are also drawing significant share of FDI inflows.

Impact of FDI on India Manufacturing Industries :

Within manufacturing sector FDI inflows in pollution-intensive industries have increased during the last decade (2000-2010) with a growth of 9% per annum. The sharp rise in the FDI inflows in the year 2008 in pollution intensive industries is driven by spike in investments in drug from Japan (Rs.161 billion) and in metallurgical from Mauritius (Rs.17.4 billion) and the US (Rs.15.5 billion). In this way on the average foreign investments within polluting industries from top ten investing countries is highest metallurgical (37.8 %) during the period from 2000 to 2010 followed by drugs and soaps (22.4 %) and chemical products (12.6%). Chemical and chemical products consistently attract significant FDI inflows from US, Netherland, Germany and Singapore Investments from Mauritius dominate in each of the dirty industry.

Conclusion:

This study analyzed impact of FDI in manufacturing industries that have been significant in determining FDI inflows in India. While India is an attractive destination for FDI in retail ; it is not so much favored for manufacturing industries. Perhaps the retail FDI policy intensives may encourage brands with a longer term play in Indian market to set up their manufacturing unit as well.

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