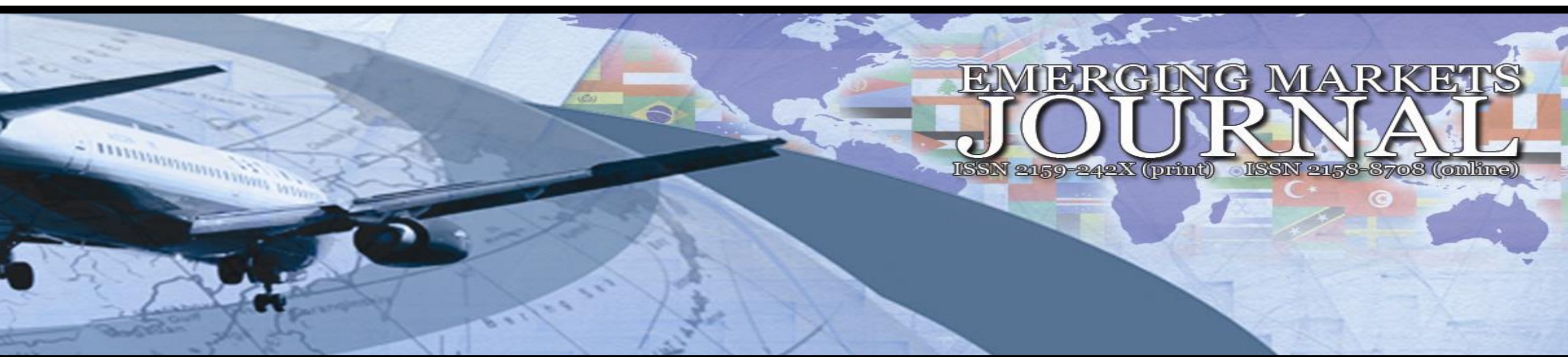

Book Review of “India’s Recent Inward Foreign Direct Investment: An Assessment”

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Abstract

This book is focused on analysing the limitation of the existing Foreign Direct Investment (FDI) statistics in India. The trends, composition and quality of FDI inflows in India after the initiation of ‘Make in India’ (MII) policy are critically analysed. This is done with a comparative perspective on the nature and quality of FDI since 1990.

Keywords: India; Foreign Direct Investments; Foreign Portfolio Investments; Corporate Sector; Business

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Review:

The book is timely as it critically analyses Foreign Direct Investment (FDI) policy reforms across various sectors and response to it till 2017. This is an extended project of a similar kind that was published by ISID during 2011. This book is mainly focused on analysing the limitation of the existing FDI statistics in India. The trends, composition and quality of FDI inflows in India after the initiation of 'Make in India' (MII) policy are critically analysed. This is done with a comparative perspective on the nature and quality of FDI since 1990.

The book is divided into 7 sections/chapters. The first chapter (chapter I) sets forth the objective of the book by highlighting the issues concerned with the concepts, definition and measurement problems of FDI inflows in India. Chapter II focused more on the FDI policy changes that took place since 2014 i.e., after the new initiative of 'Make in India' (MII) policy. Chapter III looked at the trends and characteristics of the reported FDI inflows across sectors before and after the initiation of MII. Chapter IV highlights the complexity of the reported data on FDI inflows in terms of duplicate reporting, non-reporting and delayed reporting. Chapter V narrates the extent of distortions and integrity of FDI data at aggregate level as well as at the sectoral levels. This is done by matching the inflows reported in the Department of Industrial Policy and Promotion's (DIPP) sectoral achievement report, disclosures in the Secretariat of Industrial Assistance (SIA) newsletter, and the recipient companies' filings with the Ministry of Company Affairs (MCA). Chapter VI traces the changes in the reporting requirements of FDI inflows and its effectiveness based on a sample of firms. Chapter VII summarises the major findings of the study.

The discussion on FDI policy in Chapter 2 focused on twenty-five sectors including 12 non-manufacturing sectors such as tourism, hospitality, wellness, media and entertainment, defence, security services, services sectors, civil aviation, single brand retail trade, broadcasting carriage services and other sectors such as pharma, medical services, agriculture and animal husbandry. According to the new FDI policy, approval from government is not required for securing an ownership beyond 74% for airports. Foreign airlines have been permitted to hold 49% equity stake in India's airline industry through automatic route and 100% through the approval route. NRIs can invest up to 100% with a condition that chairman and two-third of the board members of such airline should be Indian citizens. Similarly, new policy initiated in January 2018 has allowed 100% FDI in the Single Brand Retail Trade (SBRT) through the automatic route. The policy in June 2016 has relaxed local sourcing norms up to 3 years for products having state of the art and cutting-edge technology. FDI entry into food processing sector and the storage & infrastructure created by foreign traders (online, wholesale and retail) is expected to help the Indian farmers. Now, there is a pressure from foreign retail traders for allowing them to sell non-food items along with food items manufactured in India. The condition on companies developing Genetically Modified seeds were removed in the FDI policy of June 2016. Several sub-sectors and animal husbandry were opened up for 100% foreign participation. Security agencies and Broadcasting Carriage services are all opened up for foreign participation. 100 % FDI was also permitted during 2016 in financial services through automatic route.

Authors have further argued how the new FDI policy in 2016 can influence the ownership of pharmaceutical and medical services industries and therefore those industries would be dominated by global leaders. For instance, Shanghai-based Fosun pharmaceutical group of China acquired 74% of Gland pharma in October 2017 and that was possible only because of the shift to new FDI policy in 2016 which has raised the limit for brownfield FDI in pharma from 49% to 74%, and up to 100% in medical devices. It should be noted that, the major sources of finance to the industrial sector have been corporate bonds and commercial paper, which have led to an increase in external borrowings (Beena, 2018). Major chunk of FDI, which has come to India through CBM&As is nothing but the replacement of the existing assets and that do not create any additional employment (Beena, 2018). Further, it is argued that financial liberalization has only helped non-financial corporate sector in holding relatively large share of financial assets as compared to physical assets. Such investment decision made by the non-financial corporate sector failed to contribute to aggregate assets and profitability in the economy (Sen and Dasgupta, 2018). Similar kind of argument could be further established based on many empirical examples discussed in Chapter II. For instance, the sell-offs by many Indian companies have been associated with the involvement of private equity investors (e.g. Mylan laboratories, Paras pharma, International tractors).

Total FDI inflows during MII period was $ 99.7 billion, which has increased from the level of $48.4 billion. However, analysis in Chapter III observed that net FDI flows into India fell by 33.2% during post-MII period (2014-17) and capital outflows on account of repatriations/disinvestments rose by 33.8% during this regime. Beena (2018) observed that, the repatriation/disinvestments made by Indian firms

operating abroad have tremendously increased since 2009 and this could be attributed to the financial crisis and the crash in global demand. Manufacturing sector received relatively less share of FDI during post-MII period, while service sector received the maximum share of FDI inflows during 2014-17 which accounted for 64.3% as compared to 44.1% during 2012-14. The study has further observed that the share of acquisition-related inflows into the manufacturing sector was substantially low during the post-MII period. One of the major components of FDI inflows during the post-MII regime has been reinvested earnings, which accounted for 21.8%.

Interestingly, this study noted that out of the total FDI flows into India during 2014-17, Real Foreign Direct Investments (RFDI) accounted for only 58% while foreign portfolio investments accounted for 27%. The rest is contributed by India-related investors directly or together with foreign private equity investors. Similarly, in the case of retail trade including e-commerce, only 29.3% accounted for RFDI. RFDI share in SEZs, technology ports, etc were very minimal accounting for only 1.2%. RFDI share in microfinance was only 8%, while business services received 70% RFDI. RFDI share in restaurants, eating places, etc was 64%; in solar power, it was 52%; in other renewable energy, it was 60%; in healthcare (67%); mining and quarrying (89%), education (97%), agriculture, hunting and forestry (66%).

Companies are bringing more of non-RFDI during post-MII period as compared to the pre-MII period. More than 50% of the portfolio investment went into the retail trading, web portal, cab aggregators and construction. Most of these investments came from Mauritius (46.9%) and Singapore (40.8%) in order to avail tax benefits under the double tax avoidance agreement that these countries have with India.

Authors further caution the policy makers the importance for carrying out disaggregate-level analysis on FDI statistics in order to get a clarity on how MNCs have responded to the policy changes and the complexity regarding the reporting system. It highlights under-reporting, duplicate reporting and non-reporting of FDI data by citing many examples. For instance, electronics industry has received $5.5 billion worth shares by Vodafone India Ltd during September 2016 though it was not mentioned in the list on FDI inflows till June 2017 (p.65; Chapter IV).

In Chapter V, the study noted that much of the investments received by automatic route during post-MII period had actually come before 2014 though it was reported after 2014 due to the delay in reporting. The list on FDI includes all types of investments such as private equity and other portfolio investments. List on FDI companies reported by the brochure refers to RFDI. The study further discussed about the complexity of clubbing e-commerce-related companies such as Amazon, flipkaart, snapdeal, etc. The major industries which have received more than $1 billion FDI during 2016-17 were electrical equipment, cement, and gypsum; automobile industry ($1.6 billion), metallurgical industries ($1.4 billion); chemicals ($1.4 billion) . Mode of entry of RFDI in medical devices was predominantly of the non-acquisition type and such investment did not go into the manufacturing sector. Majority of them went into the trading sector. The authors further discuss the mismatch between different data sources regarding FDI inflows at length in Chapter VI and suggested to devise a mechanism similar to the special sworn employee program of US Bureau of Economic Analysis (BEA) which enabled qualified researchers to analyse data as unpaid employees of the BEA.

Thus, this book mentions various policy changes initiated by Government of India, including MII, removal of entry barriers of foreign investment in order to tap more foreign savings and better technology which is expected to transform Indian economy into a manufacturing hub. The book has also made an effort to understand the response from MNCs during pre and post-MII regime. Given their focus on data issues in this book, the authors have avoided an analysis of the developmental implications of FDI inflows and the theoretical developments associated. However, they do recognise the importance of detailed micro level analysis in order to measure the quality of FDI flows and their contribution to national economic development in terms of technological spill overs, employment generation, foreign exchange earrings, product diversification and competitiveness. The research by R Nagaraj and Arvind Subramanian about GDP estimation had given rise to a controversy. This is another welcome addition to the literature on estimation issues in the Indian economy. Authors have also undertaken a painstaking exercise to establish the problems regarding FDI statistics, which is quite convincing and we would strongly recommend this book to the policy makers and scholars who plan to work on the developmental implications of FDI inflows in the Indian corporate sector.

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