WP -29

FOREIGN INVESTMENTS IN INDIA

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November 1992

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Introduction

This article tries to give a brief outline about the policies and procedures adopted for foreign investments in India since Independence.

Section I gives the nature of policies and instruments used to contain foreign investment. It also gives an evaluation of the foreign investments during 1948, nature of repatriation during 1986-87. Besides the other policy of export promotion where India has created Free Trade Zones allowing foreign investments full freedom. The impact of such FTZs are also briefly given.

Section II gives the brief description of New Economic Policy as announced in July 1991 and the approval procedures adopted. The results during August 91-92 is given.

Section III tries to give a comparative position of agencies involved and the various conditions imposed in few of the developing countries. This gives a comparative view between Indian policy and other countries. It highlights the role of foreign investments in the development of Jiangsu ·rovince in China.

Section IV briefly touches on India's direct investment abroad.

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I: BEFORE NEP

India uses the term "foreign collaborations" for setting its policies and procedures for regulating foreign investments. The industrial policy is applicable to all business ventures. In addition, there are specific policies applicable to foreign collaborations. The basic philosophy of development was self reliance. This in turn limited the imports from the rest of the world of goods and services. Some of the policies are:

Technology Transfer: The main objective for foreign investment is to obtain new technology and it is a vehicle for the transfer of technology required by the country. This led to an elaborate screening of all proposals to determine whether technology is modern, necessary and unavailable locally.

Technology and Equity Collaborations: India preferred "technical collaborations" rather than "equity collaborations". Further, the lumpsum payments preferred to royalties on a continuing basis for technical collaborations. In case, it agrees for royalty payments, it was limited to 5% of "net ex-factory selling price" for a period of 5 years.

Diffusion of Technology: To enable rapid diffusion of technology, the Indian Patent laws gave less protection to patents.

Foreign Equity: There was a limitation of foreign ownership upto maximum of 40% under FERA. Exemptions were given for "core sector".

Foreign Exchange: India tried to keep close control on conservation of forex. The policy of foreign equity, dividend payments, royalties, import restrictions on raw materials, employment of foreign nationals.

Industrial policy: India divided the industrial economy into several sectors. Some reserved for State enterprises, and some for small industries. Others were mixed sector. Within the mixed sector, a sub group of Core sector identified and foreign investment was limited.

Capacity Utilization: India set capacity limitation for each product and each company through licensing system. This was justified on the basis of preventing wastage due to underutilisation.

Prevention of Concentration: All large companies required to get clearance from Monopolies and Restrictive Trade Practices Act. The purpose was to have a more equitable distribution.

Diversification: It was easier to get licenses for expansion to new products besides tax benefits.

Local Procurement: All companies should source its equipments and raw materials within the country. It can get license to import Capital goods only after demonstrating its nonavailability within the country.

Export Promotion: There are incentives for exports and promoted industries in Export Processing Zones or 100% export oriented units where 100% foreign equity was allowed.

Employment: All proposals are scrutinized for their employment generation and opporunity for Indians to advance in foreign collaborated enterpriser

R&D: There are incentives to encourage R & D activities.

Backward Areas: There are tax incentives, subsidies and other allowances to set up new units in backward areas.

Licensing: All companies are required to obtain licenses either new or for expansion. There are a lengthy forms and approvals from several agencies depending on the characteristics of the collaboration, the industry, the technology and other factors.

National Treatment: Once approved the foreign collaboration is treated same as any domestic company.

Evaluation

FOREIGN COLLABORATION

Number of foreign collaborations agreements approved during 1948-90 were 14,699, out of which cases involving foreign technical participation were 10,552. These figures are only approved ones, there are no data regarding how many of them have been implemented or have lapsed during these years. However 70% of these collaborations have technical participation along with training of Indian personnel. Sometimes these technologies are out of date and not suitable to Indian requirements. Besides there are several repetitive agreements i.e., several technical collaboration agreements for the same item by different Indian

manufacturers from the same collaborator, for eg. Scooters from Italian collaboration Piaggo or repetition of the same technology from different collaborators.

Majority of collaborations were in the field of electrical equipments, industrial machinery, chemicals and transportation. The country wise foreign investment approved by India during 1975-90, the major investors are USA-25%, West Germany-18%, Japan-8%, UK-7%, Bahrain-5%, Italy-4%, France & Switzerland-3% and rest of them were one or less than one per cent. The total amount of investment during these years were Rs.1,305.9 crores.

Table 1: Repatriation as on 1986-87

Rs. Crores

	From India 1986-87	To India 1990
Profit	10.60	-
Dividends	85.50	26.69
Royalties	40.10)	
Technical knowhow fees	358.40)	64.61
Interest payments	318.90)	
Total	813.50	91.30

It is assumed that foreign collaborations have been exploiting Indian market. The factual information indicates that the repatriation of profit from their investment is very meagre and if one calculates the remittance to foreign companies is about 0.3% of the GNP. The regulations on the payments of technical knowhow have been too restrictive. On the other hand we are also earning money for our meagre investment in JVs abroad (Table 1).

Export Promotion

With the objective of export promotion, there was an attempt to allow foreign investments in specified free trade zones. The performance of these zones is given in table. This shows the meagre contribution to India's export earnings (Table 2).

Table 2: Exports from FTZ

Name	No. of units Approved	Working	Exports Rs. crores
KAFTZ	-	134	456.55
SEEPZ	-	101	389.02
MADRAS	153	50	61.32
NOIDA	152	55	44.59
FALTA	69	9	25.02
COCHIN	70	22	6.25*
EOU	850	177	591.00

Source: CMIE, 1991.

The attraction for foreign investments in India is due to its large market, a huge supply of low wage workers and skilled personnel. These are not sufficient conditions. There is a gap in the necessary conditions such as poor infrastructure, power and reputation of a slow, inefficient and corruptible bureaucracy.

II: NEW ECONOMIC POLICY

The changes announced in July 1991 in the industrial policy are as follows:

a) Industrial Licensing: Only 8 industries reserved for public sector and 18 industries under licensing scheme.

   No license for expansion, no PMP, flexible location policy

b) Foreign Investment: approval up to 51% and 24% in SSI units. Same facilities to trading companies, no compulsory technology agreements.

c) Foreign Technology: Automatic approvals up to lumpsum payment of Rs.1 crore, 5% of royalty on sales and 8% for exports. No permission of hiring foreign technicians.

d) MRTP Act: removal of threshold limits of assets, no approvals required for expansion, mergers, take overs.

Approval Procedure

RBI: certain criteria

FIPB(Foreign Investment Promotion Board) 1991 for getting big players but clearing Rs.20 lakhs projects, consists of Principal Secretary to the Prime Minister, Finance Secretary, Industry Secretary, Commerce Secretary and the Administrative Secretary concerned.

Cabinet Committee on Foreign Investment (CCFI): headed by Prime Minister with the Finance Minister and Commerce Minister.

Empowered Committee (Sept.1992): headed by Finance Minister, principal secretary to the Prime Minister, Cabinet Secretary, Industry Secretary , Finance Secretary, the Minister or representative of the Min. concerned, powers to clear proposals upto Max.Rs.300 crores, a multi-layered system and Empowered Committee has dispensed with Commerce Ministry.

In just over a year of the governments new economic policy, commitments of foreig investments have touched the one billion dollar mark. At the same time Motorola has reportedly said it is packing its bags and moving to China with its $100m. This shows that foreign investors are keep to come to India but some of them are tangled in red tape.

In addition to Central clearances, the state governments are involved. Only Gujarat and Maharashtra react fast. The sector wise clearance is given in table I.

RBI has approved foreign equity investments of $241.75 mil.(Rs.750 crores) as on Sept.2?,1992. The major investors are C.Itoh and Co., Richardson Vicks Inc., Kellog Co. Amerindia

International, Telecom Malaysia. The country wise: US topped with $71.78m. followed by Japan $48.73 and the UK $ 20.48m.

Table 3: **Sectorwise Foreign Investment Approvals**

	Aug '91-July '92	Aug. '92
Power		85.06
Oil Refineries	234.00	104[illegible].25
Electric Engineering	253.88	14.99
Industrial Machinery	110.36	1.62
Chemicals	295.94	4.54
Food Processing	245.2	46.80
Miscellaneous	339.3	0.77
		(Rs. crores)

Table 4 gives the country-wise investment approvals. The major countries are US, Switzerland, Japan, UK and Gernmany.

Table 4: **Foreign Investment Approved during 1990-92**

Country	1991	1992
USA	185.85	379.8
Switzerland	355.01	663.64
Japan	52.71	465.33
U.K.	32.10	89.05
Germany	41.8	65.8
Non-Resident Indian	19.7	279.94

Table 5 gives the approval from different agencies. Government has been reacting to the grievances of potential investors. The SIA approvals are done away with and trying to have a one-window

approach. The FIPB have approval rate of 99% and very few rejections.

Table 5: **Total Amount of Foreign Equity Involved**

	1991	1992
SIA	357.76	289.90
RBI	142.24	535.60
IPB	34.11	2029.05
	534.11	2854.55

Source: The Economic Times, 21.9.1992

III: COMPARATIVE POSITION

It may be of interest to compare Indian policy and procedures with other developing countries which are trying to attract for investment. India claims to have achieved $1 bn. target. But compared to this, other countries are attracting more. Thailand and China drew in investment to the tune of $4.7 bn. and $6 bn. respectively in 1990.

Table 6: **Comparative position**

country	Agency	Conditions
China	Ministry of Foreign Economic Relations and Trade (sole)	invest Min.25% with no upper limit, preferrential treat ment in preferred sector.
Indonesia	Investment Coordi-nating Board	negative list of 11 business sectors (4 service &7 mfg.) prohibited.
Malaysia	MIDA(Malaysian Indus-trial Development Authority)	100% if 80% exported and 51% in priority sectors for domestic markets.
Philippines:	Board of Invest-ment (BOI)	40% general and 100% in pioneer activity or 70% exports, negative list: land, mass media, public utilities financial, natural resources.
Singapore	Economic Development Board	no restriction except in ser-vice sectors: banking, media and real estate.
S Korea	No approval Req.	no restrictions, negative list specified.
Taiwan	Foreign Investment Approval from Invest-ment Commission of Min. of Econ.Affair.	no restriction on size, list of favoured areas for FDI
Thailand	Board of Investment	51 to 60% general and 100% in case of export of 100%.
Mexico	Min. Trade and Indus-trial Development	40% normally allowed, 100% de-pending on location.

The Japanese Deputy Foreign Minister Mr.K.Matsuura remarked that India should provide a legal framwork for its economic policy changes introduced to attract foreign investment needs close examination. The policy changes effected through notifications could be similarly changed by a succeeding Government issuing new notifications.

JIANGSU PROVINCE IN CHINA

The foreign investments were modest upto 1986. There was one JV approved in 1982 and became operative only in 1987. The boom of foreign invesment resulted between 1987 to 1989 by entry of nearly 250 companies with an investment of $300 million. The tax concessions and landuse fees are more generous than other provinces. More imoortant was approval process was decentralized and simplified. One Hong Kong investor completed the whole process of approving his clothing JV within one hour in March 1989. This province has good transportation system with Yangtze River serving all industrial centres and good rail link with Beijing-Shanghai and Lianyungang-Urumqui. The boom of investment was due to Hong Kong and Taiwan and S.Korea. Most of the investments were less than $500,000. Initially, the manufacturing ventures were catering to domestic market and subsequently export was taken up. Some of the low invested companies were export-oreinted. The initial ones were in the field of workshoe and glove. Later other type of products entered. It is reported that many original investments were paid back within four years. Foreign share in the equity is 50%. The range of products is wide from candy wrappers, sports shirts, latex gloves, plastic floor tiles, toys, electric hotplates, leather goods, chopsticks, arts and crafts items, etc. The basic success factor was the foreign partner's knowledge of a specific export market niche.

Jiangsu attracted foreign investors in making labour intensive goods. Subsequently, a few large investment entered such as Suntory brewerey, the Sino-Swedish and Warner Lambert pharma-

ceuticals by the end of 1987. The positive trend of foreign investments reflects the expertise and official commitments to JVs in China. The large investments oriented towards domestic market but meet the objective of transfering technology to Chinese factories. Sometimes, large JVs provide indirect exports by producing inputs of international standards e.g. the Suvi Woollen Mill, a Sino-Australian JV, makes highquality yarn for the clothing industry.

IV: INDIA'S DIRECT INVESTMENT ABROAD

As a contrast, India has 193 joint ventures abroad as on 1989 with an equity participation of Rs.103 crores. There are 152 joint ventures in operation, 41 are under equity participation. Most of the joint ventures are concentrated in Asean countries, UK and USSR. The size and scale of operations of Indian JVs are small. In most of the cases it is less than Rs.50 lakhs. Besides several JVs have been abandoned.

Revised guidelines for joint ventures abroad: Oct.21,1992:

An automatic approval facility provided the Indian equity does not exceed $2m with a cash remittance component of upto $500,000. The approval would be granted in 30 days. An estimated 90% of the foreign investment would be covered under the guideline and the remaining 10% cases taken up by an Inter-Ministerial Committee. It would give its decision in 90 days. The new guidelines do not fix any specific obligation on the Indian party in regard to repatriation on account of dividends, fees, royalties, etc. But all entitlements to the Indian party are required to be remitted

to India within 60 days of their becoming due. It also pe. the joint bentures in which there is an Indian minority share-holding to diversify its activities, participate in the equity of another concern or promote a second generation foreign concern or alter its share capital without prior approval of the Government. A wholly owned subsidiary or a joint venture with an Indian majority shareholding will also be similarly permitted to make changes as mentioned subject to fulfilling certain performance criteria. Reinvestment by Indian promoters in existing joint ventures for subscribing to rights issue or issue of additional share capital by foreign concern will also be available under the automatic rule.

India's UB Group is poised to take a big stake in Wiltshire Brewery, which makes Old Grumble and Stonehenge ers. UB is pursuing Wiltshire's brewery and 40 pubs in an effort to win distribution outlets for his group's spirits and Kingfisher beer. Many foreign financial firms opening offices in India as a sign that the country has ' earned a position on the mergers and acquisitions world map.' Indian firms has gone to Eastern Europe and the former Soviet Union. In the past year alone the Uberoi Group, a German consultancy, has helped Indian firms complete four takeovers (worth a total of $270m) of eastern German textile companies.

Although the large size of target companies in the West may deter many Indian firms,but Britain is likely to see more Indian bids.; particularly textile business.

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