A Deep Dive into India's FDI Inflows from 2004-05 to 2013-14 with Emphasis on the Manufacturing Sector

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Introduction

Coming as it did in the wake of the serious external payment crisis in the early 1990s, India placed heavy emphasis on attracting large amounts of foreign direct investment (FDI). The policy regime therefore became progressively more liberal, and this process has continued till date. (See Annexure) However, not much attention was paid to assess the benefits accruing to the country from this type of investment; a point that was made by the National Manufacturing Competitiveness Council (NMCC) thus: "[A]ll announcements of successive Governments have been on the quantum of FDI received rather than on the quality of FDI. The benefits that accrued to the economy in terms of transfer of Technology, if any, is rarely highlighted possibly because no such assessments have been made".[1]

Sectoral distribution, mode of entry, home country and nature of investor are some of the dimensions of FDI that would have a significant bearing on the nature and extent of contribution of the inflows to national economic development. For India, such data for the first three dimensions are available but only at broad aggregate level and no information is available from official sources regarding the nature of foreign investors. Even when data are available, they are not in a form that can facilitate meaningful analysis. In this paper, we make an attempt to provide better insights into India's inward FDI flows, many aspects of which have not been explored earlier. A discussion of the aggregates will be followed by an analysis of actual inflows, using a dataset wherein entities bringing-in investments valued at least $ 5 mn in each tranche are included. The exercise had to be restricted to the period since the middle of 2004-05 because the data on individual cases of FDI inflows are not available for the earlier years. Since the FDI inflows accelerated after 2005-06, the study period 2004-05 to 2013-14 covers a considerably large portion of the inflows received in the post-liberalisation period till 2013-14 which reflects its representative character.[2]

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1 National Manufacturing Competitiveness Council, Report of the Prime Minister's Group: Measures for Ensuring Sustained Growth of the Indian Manufacturing Sector, September 2008.

2 FDI inflows between 2004 and 2014, which roughly corresponds to the period of our analysis, was nearly 90 percent of the total inflows that India has received since the initiation of the economic reforms in 1991 (source: UNCTAD).

The Aggregates: 1990-91 to 2014-15

The reported stock of FDI in India increased substantially after the process of economic liberalisation gained momentum. The data released by the UNCTAD shows that it rose from $1.7 bn. in 1990 to $5.6 bn. in 1995 and further to $16.3 bn in 2001. Thereafter the increase was more dramatic and by the end of 2014 it stood at $252.3 bn. This is due both to the increase in the level of annual inflows as also due to a major change in the reporting mechanism. Table-1 presents the inflows data for the period 1991-92 to 2014-15. The data are, however, comparable only for the period since 2000-01 as India adopted the international norms for presenting FDI statistics from that year.[3] The change in the reporting practice which introduced new items, especially reinvested earnings of the already established enterprises, contributed significantly to the upward revision of total inflows. Compared to the earlier methodology, the new approach resulted in reporting considerably higher FDI inflows. The ratio of new items to equity inflows (comprising inflows on account of government approvals, acquisition of existing shares and through the automatic route) was as much as 80% for the period 2000-01 to 2004-05. Though in the face of large increase in the equity inflows, their relative share declined sharply but it still remained high at nearly 40% for the period 2005-06 to 2009-10. The corresponding figure for 2010-11 to 2014-15 was slightly higher at 47%. For the 15 year period as a whole, the new items boosted the equity inflows by 46% or, close to half of the equity inflows. In this the reinvested earnings played a major role. Next in importance was other capital. It needs to be underlined that while reinvested earnings do not represent actual cross-border flows and thus cannot be taken as truly representing the relative attraction or otherwise of a country for FDI, the other capital comprising essentially loans from the foreign investors cannot be treated as long term because, by their very nature, they will have to be paid back. For instance, in case of Japan it emerges that during the five years 2009 to 2013, while gross equity outflows were $537 bn., divestments amounted to $152 bn. On the other hand, against the gross outflow of other capital of $389 bn., divestments were as much as $354 bn.[4]

Though the new items helped India present a better inflows experience, there was also a remarkable rise in the equity inflows after 2005-06. The FDI equity inflows during the five years 2005-06 to 2009-10 were almost seven times those of the previous quinquennium. The inflows did increase further in the next quinquennium which incidentally witnessed global financial crisis, but the increase was only to the extent of 30%. (See Chart 1 for a comparison of the annual average inflows during the different periods). The fall in the total inflows during 2010-11 could have been far sharper but for the doubling of the reinvested earnings during the year. In general, India's share

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3 India adopted the international practice of reporting FDI inflows data following the recommendations of the RBI Committee on Compilation of Foreign Direct Investment in India, October 2002.

4 Based on the presentation titled "Need of reliable data: as a user's point of view" by Masataka Fujita and Astrit Sulstarova (both of UNCTAD Division on Investment and Enterprise) at the **Workshop on Enhancing the Scope and Quality of Indian FDI Statistics** organized by NCAER during March 10-11, 2015 at New Delhi.

in global capital flows did increase during 2001 to 2014: from 0.8% to 2.8% in world inflows and from 2.5 to 5.1% in the inflows to developing countries.[5]

Table 1: Reported FDI Inflows to India and their Main Components (As per International Best Practices) (US $ mn)

Financial Year (April-March)	*Main Components*					*Ratio of New Items to Equity Inflows [(3)+(4)+(5)]/(2) x 100*
	Equity Inflows# (FIPB/SIA, Automatic & Acquisition Routes)	*Equity capital of unincorporated bodies*	*Re-invested earnings*	*Other capital*	*Total FDI Inflows*	
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1991-92	129					
1992-93	315					
1993-94	586					
1994-95	1,314					
1995-96	2,144					
1996-97	2,821					
1997-98	3,557					
1998-99	2,462					
1999-00	2,155					
2000-01	2,339	61	1,350	279	4,029	72.25
2001-02	3,904	191	1,645	390	6,130	57.02
2002-03	2,574	190	1,833	438	5,035	95.61
2003-04	2,197	32	1,460	633	4,322	96.72
2004-05	3,250	528	1,904	369	6,051	86.18
2005-06	5,540	435	2,760	226	8,961	61.75
2006-07	15,585	896	5,828	517	22,826	46.46
2007-08	24,573	2,291	7,679	292	34,843	41.76
2008-09	31,364	702	9,030	777	41,873	33.51
2009-10 (P)	25,606	1,540	5,668	1931	37,745	35.69
2010-11 (P)	21,376	874	11,939	658	34,847	63.02
2011-12 (P)	34,833	1,022	8,206	2495	46,556	33.65
2012-13 (P)	21,825	1,059	9,880	1534	34,298	57.15
2013-14 (P)	24,299	975	8,978	1794	36,046	48.34
2014-15 (P)	30,933	952	8,983	3423	44,291	43.18
Memorandum Items						
1991-92 to 1994-95	2,344					
1995-96 to 1999-00	13,139					
2000-01 to 2004-05	14,264	1,002	8,192	2,109	25,567	79.24
2005-06 to 2009-10	1,02,668	5,864	30,965	3,743	1,46,248	39.52
2010-11 to 2014-15	1,33,266	4,882	47,986	9,904	1,96,038	47.10
2000-01 to 2014-15	2,50,198	11,748	87,143	15,756	3,67,853	45.82

Source: (I) DIPP, FDI Statistics, June 2015 for the period since 2000-01. (II) RBI, Handbook of Statistics on Indian Economy 2009-10 for the earlier years.

Data from 1995-96 onwards include acquisition of shares of Indian companies by non-residents under Section 6 of FEMA, 1999. Data on such acquisitions are included as part of FDI since January 1996.

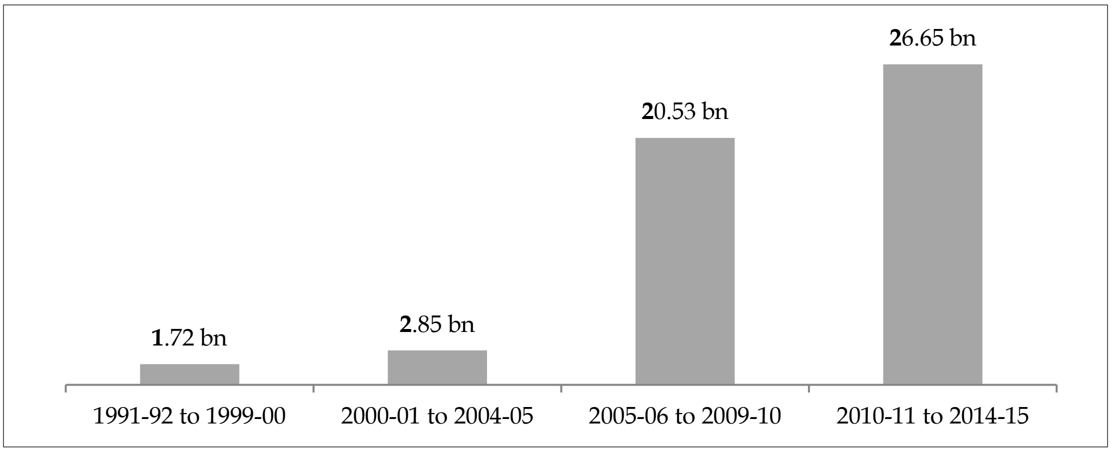
(P) All figures are provisional and data in respect of 'Re-invested earnings' & 'Other capital' for the years 2009-2010 & 2010-11 are estimated as averages of previous two years.

Data in respect of reinvested earnings and other capital for the years 2009-10 to 2014-15 are estimated as average of previous two years.

Hereafter referred to as FDI Equity Inflows.

[5] Based on UNCTAD, *World Investment Report* Annex Table WIR15_tab01.xls.

Chart 1: Average Reported FDI Equity Inflows during Different Periods



The increase in inflows after 2005-06 resulted from a number of policy initiatives taken by the government to attract FDI. Significantly, in March 2005, the government announced a revised FDI policy, an important element of which was the decision to allow FDI up to 100% of the equity of an Indian company under the automatic route in townships, housing, built-up infrastructure and construction-development projects.[6] The year 2005 also witnessed the enactment of the *Special Economic Zones Act*, which opened further avenues for the involvement of foreign firms in the Indian economy either through development of the zones or by setting up operations in the zones which offer specific incentives.

- **Mode of Entry**

As far as the mode of entry is concerned separate data are available since 1995-96 in respect of acquisition of the already issued shares, by foreign investors. Such investment would not be expected to provide additional financial resources to the enterprise whose shares change hands in the process. Depending upon the nature of investor and the extent of shares acquired it may or may not result in change of control. In some cases it may merely help the foreign investor to consolidate its hold on the investee company. Though there were major year-to-year differences, such investments accounted for nearly one-fourth of the equity inflows during 1995-96 to 2014-15. Interestingly, there was a dip in their share to 20.7% during 2005-06 to 2009-10 when the inflows rose fast. (Table-2) The share of acquisitions recovered to the previous period's level in the subsequent five years when the inflows slowed suggesting that acquisitions could have helped maintain a relatively high level of inflows. In sum, acquisition of shares (which do not add to the existing facilities) together with reinvested earnings (which do not represent actual inflows) played a significant part in India's FDI inflows during this period. As we shall see later, there is considerable scope to reclassify the official data in order to understand the extent of acquisition and substitution of already invested capital that has actually taken place.

[6] This includes, but not restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure) subject to certain guidelines.

Table 2: Year-wise and Entry Route-wise Distribution of FDI Equity Inflows# (Amount in US $ mn)

Year	Total Equity Inflows#	Of which			Share of Govt Route in Total (%)	Share of Acquisitions in Total (%)
		Government (SIA/FIPB)	RBI *	Acquisition of shares		
1991-92	129	66	63		51.16	
1992-93	315	222	93		70.48	
1993-94	586	280	306		47.78	
1994-95	1,314	701	613		53.35	
1995-96	2,144	1,249	884	11	58.26	0.51
1996-97	2,821	1,922	774	125	68.13	4.43
1997-98	3,557	2,754	443	360	77.42	10.12
1998-99	2,462	1,821	241	400	73.96	16.25
1999-00	2,155	1,410	255	490	65.43	22.74
2000-01	2,339	1,456	521	362	62.25	15.48
2001-02	3,904	2,221	802	881	56.89	22.57
2002-03	2,574	919	739	916	35.70	35.59
2003-04	2,197	928	534	735	42.24	33.45
2004-05	3,250	1,062	1,258	930	32.68	28.62
2005-06	6,276	1,862	2,233	2,181	29.67	34.75
2006-07	15,585	2,156	7,151	6,278	13.83	40.28
2007-08	24,573	2,298	17,127	5,148	9.35	20.95
2008-09	31,364	5,400	21,332	4,632	17.22	14.77
2009-10	25,606	3,471	18,987	3,148	13.56	12.29
2010-11	21,376	1,945	12,994	6,437	9.10	30.11
2011-12	34,833	3,046	20,427	11,360	8.74	32.61
2012-13	21,825	2,319	15,967	3,539	10.63	16.22
2013-14	24,299	1,185	14,869	8,245	4.88	33.93
2014-15	30,933	2,219	22,530	6,185	7.17	19.99
Memorandum Items						
1995-96 to 1999-00	13,139	9,156	2,597	1,386	69.69	10.55
2000-01 to 2004-05	14,264	6,586	3,854	3,824	46.17	26.81
2005-06 to 2009-10	1,03,404	15,187	66,830	21,387	14.69	20.68
2010-11 to 2014-15	1,33,266	10,714	86,787	35,766	8.04	26.84
2000-01 to 2014-15	2,50,934	32,487	1,57,471	60,977	12.95	24.30

Based on http://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics
Excluding investments in Unincorporated Bodies, Reinvested Earnings and Other Capital.
* Includes NRI investment for the years 199-92 to 2001-02.

Another dimension of the mode of entry is whether the investment was subjected to specific government approval. Overall, progressively, lesser and lesser proportion of the inflows were subjected to the formal approval process as their share declined from 62.3% in 2000-01 to less than 10% during the last two years. Specifically, share of approvals fell in each successive five years: from 69.7% in 1995-96 to 1999-2000, to 46.2% in 2000-2001 to 2004-05 and to only 8% in 2010-11 to 2014-15 reflecting the extent of opening up and the greater freedom enjoyed by the foreign investors in making their investment decisions. There is, however, some ambiguity regarding the reporting of inflows under the acquisition route when they required specific government approval.

- **Sectoral Distribution**

In case of sectoral distribution the available data are hampered by excessive aggregation and changes in the classification system over the years. The *Economic Survey 2014-15* indeed observed that "[T]he ambiguity in classifying FDI in different activities under the services sector continues". Such ambiguity could be seen in the official reporting for the period 2000 to 2009. The data provided in the *SIA Newsletter Annual Report 2009*, suggests that manufacturing accounted for 38% of the inflows during the period. However, given the fact that (i) Telecommunications, (ii) Others (software), (iii) Other (Telecom), (iv) Transportation (Oil Refinery), (v) Power, (vi) Non-Conventional Energy, (vii) Coal Production, and (viii) Others (Miscellaneous Industries) were considered under the manufacturing sector and in the context of the Economic Survey's observations, the share of manufacturing sector could be considerably lower. A recasting of the official data by excluding such items and taking half of the miscellaneous industries as falling under the manufacturing sector, the sector's share comes to about 27%. Interestingly, official reporting suggests that among the recent years, in 2011-12 and 2013-14, manufacturing sector received far more than the non-manufacturing sectors.[7] It would probably not have been possible without classifying the above items under manufacturing. The limited objective of presenting this information is to underline the necessity to recast the official data based on some standard classification system.

Data prior to 2000-01 was less organised in terms of the actual inflows. Initially the government reported data on approvals and as due to gradual opening up foreign investors were no longer required to obtain specific approval, progressively approval data lost its relevance. Also, in the initial years as the rate of conversion of approved investment was quite low, the reported approvals failed to provide a reliable indicator of ground level developments. On the other hand, in the subsequent years inflows far exceeded the approvals. This incongruent position was because there was no way of distinguishing the inflows between those which came through the automatic route and the ones that needed approvals. Further, as mentioned earlier, during that period, inflows were quite small and even these were presented at a highly aggregated level and under vague classification making it difficult to have reasonable estimates of flows into the manufacturing sector. The tabulations provided in RBI Annual Reports were no exception.

However, since the opening of the services sector was more gradual, the manufacturing sector would have had a reasonably high share in the relatively small volumes reported during that period. In rupee terms the share of manufacturing sector worked out to 43.3% [including oil refineries (9.8%)] in the FDI approvals during August 1991 to December 2000. The other important segments were telecommunications (18.6%), power and other energy (18.3%). The total approved amount was Rs. 2,46,800 crore said to be equivalent to US $ 68.5 bn.[8] A major issue in the early years was that actual inflows were far less than the approved amounts. For instance, as mentioned above, the reported actual inflows during this period were Rs. 89,286 crore, equivalent to $23.7 billion.[9] Thus in dollar terms inflows accounted for just about one-third of the approvals. An estimate put the ratio of inflows to approvals

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7 http://dipp.nic.in/English/Publications/SIA_NewsLetter/Annualreport2012/fdigraphs.pdf and http://dipp.nic.in/English/Publications/SIA_NewsLetter/AnnualReport2013/fdigraphs.pdf.

8 http://dipp.nic.in/English/Archive/newslttr/jan2001/news5.htm

9 http://dipp.nic.in/English/Archive/newslttr/jan2001/news6.htm

excluding GDRs since opening up and till July 1997 at 19.4%.[10] Another important feature of the inflows in the period immediately following the opening up was that many of the former FERA companies tried to attain foreign subsidiary status and contributed significantly to the actual inflows during those years. It was found that the amount of approved equity in such hike cases was 23.4 per cent of the total for automatic approvals. The share of equity hike cases in actual inflows was much higher at 53.8 per cent. Such investment would obviously not have contributed to building new capacities.[11] These facts clearly indicate that the reported sectoral distribution of the approvals was grossly inadequate to reflect the actual picture.

The aggregate data suggest that the shift towards services started emerging in 2001-02.[12] Incidentally, in early 2000, as part of the 'second phase of reforms' the FDI policy was liberalised placing most activities under the automatic route with certain exceptions.[13] During 2000-2005 services were slightly ahead of manufacturing. (Table-3) The subsequent sharp increase in inflows was characterised by a major change in their sectoral composition. During 2006-2009 there was a dramatic change with the share of manufacturing sector falling to half of what it was in the earlier period. While during 2010-2014 manufacturing sector recovered to regain its earlier position the share of services continued to be above that of manufacturing sector. The high share of manufacturing sector was due to the amounts credited to the drugs and pharmaceutical industry, chemicals (other than fertilisers), automobiles industry, metallurgical and food processing industries, in that order. Mining and agriculture related activities received marginal amounts.

Table-3: Changing Shares of Manufacturing and Services in FDI Equity Inflows (Percentages)

Sector	*2000-2005*	*2006-2009*	*2010-2014*	*2000-2014*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
Services	41.9	68.4	45.7	53.6
Manufacturing	38.2	19.0	41.4	33.0
Energy	8.3	6.6	9.2	8.2
Primary (excl. Oil & Gas)	0.7	2.4	0.9	1.4
Miscellaneous Industries	10.9	3.6	2.8	3.8
Total	100.0	100.0	100.0	100.0

Based on data provided in DIPP, SIA Newsletter, various issues.

Considering the 15-year period of 2000-2014 as a whole, the manufacturing sector accounted for about one-third of the equity inflows. These were, however, concentrated in a few industries. (Table-4) The top most industry in terms of FDI inflows was drugs and pharmaceuticals with $12.8 bn inflows and it accounted for a little above 16 per cent of the inflows into the manufacturing sector. Automobiles sector, which has attracted many new entrants, is the next important manufacturing industry in terms of the FDI inflows. It was followed by the widely diversified chemicals industry (other than fertilisers). Natural resource-based metallurgical

10 K.S. Chalapati Rao, M.R. Murthy and Biswajit Dhar, "Foreign Direct Investments in India Since Liberalisation: An Overview", Institute for Studies in Industrial Development, Working Paper No. 052.

11 S.K. Goyal, et. al. "Foreign Investment Approvals & Implementation Status: A Review (August 1991 - December 1994)", Institute for Studies in Industrial Development, a report submitted to the Ministry of Finance, March 1995.

12 https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/51000.pdf, Table 6.7, p. 155.

13 DIPP, Press Note No. 2 (2000 Series), February 2000.

industries also figure relatively at the top among the manufacturing industries followed by the food processing industries. Electrical equipment and industrial machinery were not only ranked lower but their share in total as well as in terms of quantum of FDI received was considerably small.

Table-4: Major Manufacturing Industries Attracting FDI Inflows during 2000-2014

Industry	*Inflows ($ mn.)*	*Share (%)*
Drugs & Pharmaceuticals	12,854	16.3
Automobile Industry	11,551	14.6
Chemicals (Other Than Fertilizers)	10,222	12.9
Metallurgical Industries	8,358	10.6
Food Processing Industries	6,194	7.8
Electrical Equipments	3,783	4.8
Industrial Machinery	3,359	4.3
Cement and Gypsum Products	3,091	3.9
Miscellaneous Mechanical & Engg. Industries	2,721	3.4
Fermentation Industries	2,116	2.7
Rubber Goods	1,708	2.2
Textiles (including Dyed, Printed)	1,523	1.9
Electronics	1,413	1.8
Prime Movers (other than Electrical Generators)	1,201	1.5
Paper and Pulp (including Paper Products)	910	1.2
Medical and Surgical Appliances	876	1.1
Soaps, Cosmetics & Toilet Preparations	848	1.1
Machine Tools	705	0.9
Ceramics	686	0.9
Railway related Components	634	0.8
Fertilizers	543	0.7
Vegetable Oils and Vanaspati	516	0.7
Others (excl. Miscellaneous Industries)	3,208	4.1
Total	79,020	100.0

- **Home Countries**

Another important aspect of the inflows is the substantial shift in the immediate source country for FDI into India (Table 5). While the prominence of Mauritius for routing foreign capital to India has been well known, during 2005 to 2009 Mauritius further strengthened its position as the source country when it accounted for practically half of the total reported equity inflows. Interestingly, Singapore secured the second position with Cyprus and UAE entering the group of top 10 home countries for FDI into India. The following period, however, witnessed changes in the relative shares of the different home countries. While the share of Mauritius fell significantly, that of Singapore remained high. Incidentally, this shift in relative position happened when the share of manufacturing sector recovered which probably implies that Mauritius might not have been the preferred route for investments into the sector. While the top two countries remained the same, their combined share fell from 61% to 45%. The shares of UK, Japan and the Netherlands increased substantially. On the other hand, the share USA fell gradually from 20 per cent in the initial decade to less than 5% in the final five years. Obviously, home country-wise distribution is seriously distorted by the involvement of tax havens like Mauritius which remained at the top for many years. Major developed home countries like the US figure way below. In such a situation one cannot expect meaningful cross-tabulations such as which country investors invested in which specific industries and activities. Nor can one get a fairly good idea of the outcome of the efforts at pursuing certain country investors.

Table 5: India's FDI Equity Inflows*: Top 10 Home Countries Share (percentages)

SNo	*Country*	*Aug. 1991 to Dec. 2000*	*2001 to 2004*	*2005 to 2009*	*2010-2014*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*
1	Mauritius	31.51	38.81	49.62	29.30
2	Singapore	2.76	2.22	11.33	15.35
3	U.S.A.	20.10	14.36	7.28	4.16
4	U.K.	5.44	7.80	5.64	12.27
5	Cyprus	0.20	0.18	4.41	3.27
6	Netherlands	5.19	9.48	3.83	7.17
7	Japan	7.41	7.32	3.22	10.68
8	Germany	5.61	4.13	2.61	3.47
9	U.A.E.	0.08	0.66	1.75	1.07
10	France	2.59	3.22	1.24	2.26
	Sub-Total	80.90	88.19	90.80	89.00
	Others	19.10	11.81	9.20	11.00
	Total FDI Inflows	100.00	100.00	100.00	100.00

* Excluding NRI investments and those for which country details have not been reported.
The ranking is based on their position in 2005-09.
Source: Based on the data provided in SIA Newsletter (various monthly and annual issues).

Analysis of Individual Inflows: 2004-05 to 2013-14

As noted above, the aggregate data offered by official agencies have serious limitations in understanding the nature of FDI flows into India. In order to overcome this major shortcoming, we made an attempt to analyse data on inflows into individual enterprises. The government started reporting the particulars of individual tranches of inflows from September 2004 onwards. Prior to that information was provided on approvals which lost their relevance over time not only because of the wide differences between approvals and actual inflows but also because progressively, the case-by-case approval process was diluted. The following exercise is based on an analysis of inflows reported for the period September 2004 – March 2014. To keep the exercise within manageable limits while also not compromising on its representative character, we have chosen all individual tranches of inflows each amounting to US $ 5 mn or more. To the extent possible, we tried to also include those cases where the combination of foreign investor and Indian investee company is the same as any one of the $5 mn and above cases. This data was taken from successive issues of the *SIA Newsletter*.

The *SIA Newsletter* offers three lists, one each for FIPB/SIA approvals, payment against acquisition of existing shares and inflows recorded by the RBI under the automatic route. Out of the reported inflows through *(i)* Foreign Investment Promotion Board (FIPB)/Secretariat for Industrial Assistance (SIA) approval route, *(ii)* automatic route and *(iii)* acquisition of existing shares of Indian companies (together referred to as Equity Inflows) the ones thus identified were 5,667. To these another 3,306 were added following the identification of common set of investor and investee companies appearing among the 5,667. The 8,973 tranches of equity inflows accounted for $178 bn out of $205 bn. or 86.8% of the total equity inflows.[14] The individual elements of information on inflows are: name of the foreign investor, name of the country from which the amount was remitted, name of the recipient Indian entity, product/activity of the venture, inflow in Indian rupees and equivalent US dollars. For the sake of convenience we shall refer to these as Top Inflows. Since these are individual inflows and a company could have received inflows more than once during the period, we have tried to identify individual companies by taking into account name changes that have occurred. In fact, almost 500 companies underwent name changes. By collecting Company Identification Numbers of all the investee entities from the website of the Ministry of Corporate Affairs (MCA), we could avoid the possibility of the same company being counted more than once. We could thus identify 2,904 recipient companies corresponding to these 8,973 cases of inflow tranches.[15] One major lacuna of this data source is that it does not reveal the share of the foreign investor in the Indian investee company. The crucial elements added by us to the official data are:

(i) classification of the foreign investors in to realistic FDI, private equity, India-related; and other portfolio investors;
(ii) identifying and classifying the headquarters of the foreign investors into country groupings following UNCTAD's classification of countries;
(iii) sectoral classification of the recipient companies based on United Nations, International Standard Industrial Classification (ISIC) Rev 3.1;
(iv) improving upon the mode of entry in case of manufacturing companies; and
(v) latest position with regard to foreign shares in equity and status of the ventures in case of manufacturing companies receiving realistic FDI.

These insertions helped us to analyse the data from angles which were hitherto never attempted.

- **Sectoral Distribution**

From Table-6 it can be seen that the sectoral distribution of inflows represented by the Top Inflows broadly corresponds to the distribution presented in Table-3. The

[14] For comparison purposes we relied on the DIPP figures which were lower than those reported by the RBI by $2.6 bn.. See http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_March2014.pdf

[15] In two out of these cases, it was not possible to ascertain the actual names of the companies as the information was incomplete. In three cases, the investee entities appear to be investment funds and one was a bank. Since such cases were negligible, we refer to all the 2,904 as companies.

manufacturing sector stood at the top with a share of about 35% both in the number of companies and inflows. Next in importance is the construction sector (14.1%) followed by financial intermediation (12.7%). In terms of number of recipient companies also the two sectors follow in the same order. While in case of the former engineering companies are also covered their share in inflows into the sector was quite small at 7.5%. More than half of the investment appears to have gone into townships, residential and commercial complexes. In case of the financial sector, banks and insurance companies have much smaller number of companies compared to what one can call non-banking finance companies. Interestingly, companies associated with dealings in securities are not only prominent in terms of number of companies but their share was also relatively high at 28.5%. Telecommunications was the mainstay of the transport, storage and communications group. Information Technology (IT) and Information Technology Enabled Services (ITES) accounted for a substantial portion of the inflows into the business activities group. While power generation accounts for practically all the investment into the electricity, gas and water supply group, the group's share is, however, quite low at 5.8% of the total inflows. Radio & television activities account for over 80% of the inflows into other community, social & personal services group.

Keeping in view the observation that official data suggested that the manufacturing sector's share increased in the period since 2010, we tried to obtain the sectoral distribution of the inflows till March 2010 and thereafter. (Table-7) While manufacturing, electricity generation, hotels & restaurants and trading gained in the second period, prominent losers were construction, finance, transport & communications, and business activities comprising IT and ITES. In general, those sectors which gained in share also had larger volumes of inflows in the second period and those who had lost, also lost on both the counts. Within manufacturing, the maximum inflows were received by the pharmaceuticals, automobiles and parts & components, basic iron & steel, soaps and detergents, electric motors, cement, food products & beverages. Prominent industries which lost in the second period were the electronic products and components and non-metallic mineral products. Further analysis of the changes in the inflows into manufacturing sector is presented at a little later.

- **Mode of Entry**

Only about 12% of the selected inflows were subjected to a formal approval process. Overall, about 23% of the inflows were on account of acquisition of existing shares by foreign investors. This mode of entry was, however, more prominent in the case of seeds companies (88.5%), overall manufacturing (30.7%) -- within which drugs & pharmaceutical industry (41.7%), insurance (36.9%), supporting transport activities (37.6%), IT (63.1%) and education (34.6%). A word of caution is, however, called for in interpreting the data on acquisitions as the inflows reported under this head could be under-representing the extent of acquisition of existing businesses by foreign investors

Table-6: Sector and Entry Mode-wise Distribution of Top 8,973 reported FDI Equity Inflows# during September 2004 and March 2014

ISIC Section	No. of Companies	Inflow (US $ mn)	Share in Total (%)	Share in Sector's Total(%)		
				Acquisition	FIPB/SIA Approval	Automatic Route
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Agriculture, hunting and forestry	11	1,432	0.8	87.2	1.0	11.8
- *Seed Companies*	*9*	*1,411*	*98.5*	*88.5*	*1.0*	*10.5*
C. Mining and quarrying	32	3,930	2.2	9.0	1.6	89.4
- *Extraction of crude petroleum & natural gas*	*10*	*2,601*	*66.2*	*4.7*	*0.0*	*95.3*
- *Mining of iron ores*	*10*	*1,162*	*29.6*	*19.8*	*5.4*	*74.8*
D. Manufacturing	1,012	63,772	35.8	30.7	12.7	56.6
- *Drugs & Pharmaceuticals*	*77*	*12,110*	*19.0*	*41.7*	*10.4*	*47.9*
- *Motor vehicles*	*25*	*5,161*	*8.1*	*6.4*	*15.3*	*78.3*
- *Basic iron & steel*	*61*	*5,160*	*8.1*	*22.9*	*1.6*	*75.5*
- *Cement, lime & plaster*	*20*	*2,925*	*4.6*	*26.5*	*22.5*	*51.0*
F. Construction	581	25,155	14.1	9.5	2.6	87.9
J. Financial intermediation	289	22,545	12.7	19.6	15.2	65.2
- *Other credit granting institutions*	*97*	*8,183*	*36.3*	3.9	15.0	81.0
- *Security dealing activities*	*103*	*6,427*	*28.5*	*21.3*	*24.8*	*53.9*
- *Insurance*	*27*	*2,871*	*12.7*	*36.9*	*6.4*	*56.7*
- *Banks*	*14*	*2,099*	*9.3*	*1.3*		*98.7*
I. Transport, storage & communications	169	20,699	11.6	18.0	25.7	56.2
- *Telecommunications*	*62*	*13,777*	*66.6*	*10.7*	*31.4*	*57.9*
- *Other supporting transport activities*	*31*	*3,084*	*14.9*	*37.6*	*18.0*	*44.3*
K. Business activities	279	12,465	7.0	43.3	8.2	48.5
- *Other software consultancy and supply (IT)*	*68*	*6,189*	*49.7*	*63.1*	*10.4*	*26.5*
- *Other business activities n.e.c.(ITES)*	*68*	*2,579*	*20.7*	*19.4*	*5.5*	*75.1*
E. Electricity, gas and water supply	132	10,348	5.8	12.8	10.2	77.0
- *Production, transmission & distribution of electricity*	*123*	*10,040*	*97.0*	*12.4*	*9.3*	*78.3*
H. Hotels & restaurants	107	5,731	3.2	9.2	3.2	87.7
G. Wholesale and retail trade, etc.	144	3,974	2.2	10.2	13.9	75.9
- *Other wholesale*	*24*	*836*	*21.1*	*12.0*	*27.5*	*60.5*
- *Wholesale of food, beverages & tobacco*	*12*	*410*	*10.3*	*28.8*		*71.2*
- *Sale of motor vehicle parts & accessories*	*9*	*307*	*7.7*			*100.0*
O. Other community, social & personal services	61	3,572	2.0	23.3	36.6	40.2
- *Radio & television activities*	*36*	*2,915*	*81.6*	*26.1*	*42.6*	*31.3*
M. Education	25	2,218	1.2	34.6	0.0	65.4
N. Health & social work	59	2,122	1.2	18.1	6.6	75.3
Unidentified	3	25			54.3	45.7
Grand Total	2,904	**177,988**	100.0	23.2	12.2	64.5

Source: Based on the actual inflows reported in the monthly issues of SIA Newsletter.
Each amounting to US $ 5 mn or more.

Table-7: Sectoral Distribution of Top Inflows during Two Periods

(percentages)

ISIC Section	*September 2004 to March 2010*	*April 2010 to Match 2014*
(1)	*(2)*	*(3)*
A. Agriculture, hunting & forestry	1.4	0.2
C. Mining and quarrying	3.5	0.8
D. Manufacturing	26.9	45.5
E. Electricity, gas & water supply	4.6	7.1
F. Construction	17.7	10.2
G. Wholesale & retail trade, etc.	1.5	3.0
H. Hotels & restaurants	1.6	4.9
I. Transport, storage & communications	13.2	9.9
J. Financial intermediation	15.8	9.2
K. Business activities	9.4	4.4
M. Education	1.4	1.0
N. Health & social work	0.9	1.5
O. Other community, social & personal services	1.9	2.1
Unidentified	Negl.	Negl.
Total	100.0	100.0
Inflows ($ bn.)	92.6	85.3

in India.[16] The inflows reported under this category only reflect purchase of existing shares of companies incorporated in India. Other forms of acquisition namely, incorporation of holding companies which subsequently takeover local companies or investment in new companies which acquire existing business units of other companies are not covered under the official classification. We made an attempt to identify such forms of acquisition in case of manufacturing companies which received what we term as realistic FDI.

- **Types of Foreign Investors**

In order to further understand the nature of reported FDI inflows, which could indicate the possible behaviour of the foreign investors and their contribution to enterprise development, we have classified the foreign investors into different categories. Investments by foreign companies which invested in their own area of functioning, irrespective of the sector they are engaged in, have been categorised as realistic FDI (RFDI).[17] All those cases, irrespective of the share of foreign shareholders in the investee company, were treated as RFDI. This category is expected to possess the characteristics theoretically associated with FDI. All individual investors whose names

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16 In sharp contrast to the official figures which indicate that inflows into acquired companies accounted for one-fourth of the FDI inflows (other than that classified as portfolio/PE/VC/HF/round-tripping, etc.) into manufacturing companies, a study observed that the share of such inflows could be as high as half. See: K.S. Chalapati Rao and M.R. Murthy, "Location of FDI in India: Some Less Explored Aspects", forthcoming in *Transnational Corporations Review,* Special Issue on Multinational Enterprises and Development in India.

17 However, cases like Cargill Holdings BV investing in Cargill Capital & Financial Services Pvt Ltd. and HPFS Venture Holdings Ltd. investing in Hewlett Packard Financial Services (India) Pvt Ltd. were also treated as FDI.

suggest that they could be of Indian origin and companies known to have been promoted by them are termed as India-related foreign investments (IRFI). Portfolio investors known to be in the private equity/venture capital activity, hedge funds and sovereign wealth funds (SWF) have been classified as PEFI investors.[18] Investments by banks and other financial intermediaries (unless these are in their own respective sectors) are termed as Other Portfolio Foreign Investments (OPFI) as the main objective of such investments could be capital gains and they on their own are unlikely to contribute directly to the functioning of the domestic investee company.

Another major departure in this exercise from the analysis of FDI generally made in India was with regard to the identification of the foreign investors according to their operational headquarters. This was intended to overcome the serious limitation suffered by the official data wherein tax havens figure prominently as the source countries. To the best of our knowledge identification of foreign investors on these lines is probably the first of its kind using India's FDI data. In spite of the innumerable problems faced and the extremely large amount of time it consumed, we persisted with it because of its potential to bridge a critical gap in the understanding of India's FDI experience, the primary objective of this research programme. The exercise can in no way be termed as fool-proof. But it is probably the closest to what private researchers can achieve using public information sources. As a result, we are in a position to offer many useful insights which are not available so far.

Going by the foregoing criteria, out of the total $178 bn inflows under study a little more than half can be termed as RFDI. (Table-8 & Chart-2) The next most important category is PEFI with a share of a little more than one-fourth. IRFI excluding the PEs promoted by Indians and those where the extent of Indians' involvement is difficult to ascertain worked out to 14.5%. If these are also taken into account, the share of India-related investments will work out to be much higher. OFPI accounted for the remaining 6.1% of the inflows. Share of RFDI in different ISIC categories varied quite widely. Though it is maximum in case of agriculture (seeds) the amount involved was quite small. Its share was a little more than three-fourths in case of manufacturing sector. In case of trading sector the share was nearly three-fourths. Other sectors in which RFDI had 50% or more share were financial sector, personal services (essentially broadcasting) and business activities (comprising mainly IT and ITES) and transport, storage and communications. Significantly, in case of construction, which stood next only to the manufacturing sector in terms of both the volume of inflows and number of recipient companies, the share of RFDI was quite low at 11.3%. The prominent investors in this sector were PEFI and IRFI. Within this sector, engineering companies had much higher share of RFDI. PEFI and IRFI were also prominent in case of electricity, gas & water supply. Other sectors in which PEFI had a major share were health & social work and hotels & restaurants. IRFI dominated the education sectors' inflows.

18 While venture capital is a subset of private equity and has a different connotation in respect of risky and high technology ventures, available information does not enable an easy and clear-cut distinction between the two. Hence, these are very often referred to together.

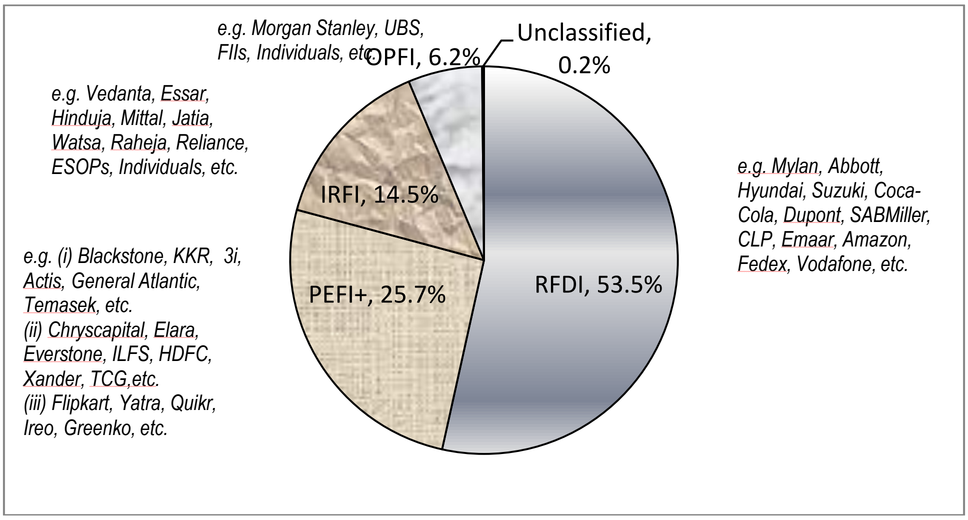
Table-8: Sector and Type of Foreign Investor-wise Distribution of Top 8,973 Equity Inflows

ISIC Section	*Inflow (US $ mn)*	*Share in Sector's Total (%)*			
		RFDI	*PEFI*	*OPFI*	*IRFI#*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
A. Agriculture, hunting & forestry	1,432	92.0	4.0	1.8	2.2
C. Mining and quarrying	3,930	51.8	11.1	9.1	28.0
D. Manufacturing	63,772	76.2	9.8	3.6	10.4
E. Electricity, gas & water supply	10,348	21.8	30.3	17.2	30.6
F. Construction	25,155	11.3	58.0	9.3	21.0
- Engineering Cos	1,877	31.7	37.8	7.3	23.1
- Others	23,277	9.6	59.6	9.4	20.9
G. Wholesale & retail trade, etc.	3,974	74.9	15.7	2.4	7.0
H. Hotels & restaurants	5,731	12.0	67.8	6.1	13.6
I. Transport, storage & communications	20,699	49.9	25.4	9.3	15.4
- Telecommunications	13,776	60.8	27.7	3.2	8.4
- Others	6,923	28.3	21.0	21.3	29.3
J. Financial intermediation	22,545	63.0	25.8	4.7	6.5
K. Business activities	12,465	57.6	26.3	3.0	12.9
M. Education	2,218	16.1	18.7	5.4	59.7
N. Health & social work	2,122	9.5	60.6	7.3	22.7
O. Other community, social & personal services	3,572	63.5	21.1	4.4	11.0
Unidentified	25	0.0	21.0	54.3	24.7
Total	177,988	53.5	25.7	6.2	14.5

includes investment that could be categorised as round-tripping.

Note: the percentages in Cols. (3) to (6) do not add up to 100 in some cases as negligible amounts of unclassified investments are not shown here.

Chart 2: Distribution of FDI Inflows according to the Nature of Foreign Investor



In all, it appears that while RFDI is prominent in case of manufacturing sector, except for telecommunications its involvement was quite low in case of what can be termed as infrastructure sectors. Thus infrastructure was funded largely through private equity and India-related investments. Within other services relative contribution of RFDI was high in broadcasting, IT&ITES, trading and financial services. Though small in absolute terms, its relative high share in agriculture (seeds), which was predominantly through the acquisition route, could have far reaching implications. Among the services, it should be noted that IT and ITES which have the potential to earn large amount of foreign exchange, have a relatively low share. Further, PEFI and OPFI are not long term investments and by their very nature could be recycling the encashed earlier investments. PEFI could also be replaced by other foreign investors. Thus there could be double counting and net inflows could be lower than what the aggregates suggest. Also there could be considerable servicing burden when PEFI is involved as it seeks high returns exits.

The manufacturing sector accounted for a little more than half of the realistic FDI received during the year. Next in importance was the financial sector followed by transport & communications and business activities (IT&ITES). Individually telecommunications has a major share of 8.8%. (Table-9) Within financial intermediation, interestingly the most important category is that of securities dealing activities – mainly activities allied to stock market investing. The combined share of the four sectors was about 85% of the total RFDI. Prominent sectors in case of PEFI were construction, manufacturing, financial and transport & communications with a combined share of nearly 70%. These sectors again accounted for 70% of OPFI. In addition, electricity, gas & water supply claimed a share of 16.3%. Manufacturing, construction, transport & communication and electricity, gas & water supply accounted for 71% of IRFI. Thus, construction development sector was the most important sector for PEFI from the point of its share in the inflows to the sector as also the sector's share in total PEFI investments.

Table-9: Sectoral Distribution of Various Types of Top Equity Inflows

(Percentages)

ISIC Section	*RFDI*	*PEFI*	*OPFI*	*IRFI*	*Total*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
A. Agriculture, hunting & forestry	1.4	0.1	0.2	0.1	0.8
C. Mining and quarrying	2.1	1.0	3.2	4.3	2.2
D. Manufacturing	51.0	13.6	20.6	25.8	35.8
E. Electricity, gas & water supply	2.3	6.9	16.2	12.4	5.8
F. Construction	3.0	31.9	21.2	20.5	14.1
G. Wholesale & retail trade, etc.	3.1	1.4	0.9	1.1	2.2
H. Hotels & restaurants	0.7	8.5	3.2	3.0	3.2
I. Transport, storage & communications	10.9	11.5	17.4	12.3	11.6
- Telecommunications	*8.8*	*8.3*	*4.0*	*4.5*	*7.7*
J. Financial intermediation	14.9	12.7	9.7	5.7	12.7
- Security dealing activities	*5.2*	*2.7*	*1.5*	*0.4*	*3.6*
- Other credit granting	*4.5*	*6.2*	*4.2*	*2.3*	*4.6*
K. Business activities	7.5	7.2	3.4	6.2	7.0
M. Education	0.4	0.9	1.1	5.1	1.2
N. Health & social work	0.2	2.8	1.4	1.9	1.2
O. Other community, social & personal services	2.4	1.6	1.4	1.5	2.0
Total	100.0	100.0	100.0	100.0	100.0

Note: Unclassified ones are not shown here.

The classification of investments into different types based on the nature of foreign investors helped us to analysis the inflows further. Out of the 2,904 investee companies covered in our exercise we found that in case of as many as 1,463 or in about half of the cases there was no involvement of RFDI. These companies accounted for inflows to the tune of $75 bn. 341 of the manufacturing companies did not receive RFDI while those in which realistic FDI was invested were 671. (Table-10) The relative proportion of RFDI invested companies was considerably larger in case of trading sector, business activities and financial intermediaries. On the other hand, against 86 construction sector companies which received RFDI as many as 495 did not receive RFDI. Electricity, hotels & restaurants and health & social work were the other sectors in which the proportion of companies receiving non-RFDI inflows was higher. PEFI which accounted for more than half of these inflows was relatively the highest in hotels and restaurants, financial sector, community & personal services, health & social work and construction. IRFI played a major role in case of eductaion, mining & quarrying, manufacturing and electricity. OPFI did not play a domiant role in any of the sectors. The expereince of companies receing RFDI was in sharp contrast to this. Almost 92% of the investment was in the form of RFDI with some role played by PEFI invetsors with a share of nearly 5%. The latter had noteworthy presence in case of health & social work, construction, mining & quarrying and the financial sector. This, however, need not imply that RFDI coexisted with other types of inflows. It could be possible that the PEFI recipient companies might have been taken over subsequently by RFDI companies. This distinct possibiliy makes the net inflows to be lower than what the aggegates suggest.

Table-10: Distribution of RFDI-recipient Companies and Others

ISIC Section	*Companies Not Receiving RFDI*					*Companies Receiving RFDI*					
	No. of Cos.	*Inflows ($ mn.)*	*Share in Sectoral Total (%)*			*No. of Cos.*	*Inflows ($ mn.)*	*Share in Sectoral Total (%)*			
			IRFI	*OPFI*	*PEFI*			*IRFI*	*OPFI*	*PEFI*	*RFDI*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*
A. Agriculture, hunting & forestry	5	114	27.2	22.8	50.9	6	1,317				100.0
C. Mining and quarrying	19	1,532	68.8	22.7	8.5	13	2,398	2.0	0.4	12.7	84.9
D. Manufacturing	341	14,298	45.2	15.2	39.1	671	49,469	0.4	0.2	1.3	98.2
E. Electricity, gas & water supply	92	7,860	38.3	22.6	38.9	40	2,488	7.0	0.2	3.1	89.7
F. Construction	495	21,490	24.5	10.3	64.7	86	3,665	0.6	3.5	18.9	77.0
G. Wholesale & retail trade	36	882	28.7	9.3	61.9	108	3,091	0.8	0.5	2.5	96.2
H. Hotels & restaurants	76	4,946	14.8	7.1	77.6	31	785	6.0	0.1	6.0	87.8
I. Transport, storage & communications	86	9,490	29.7	18.1	52.1	83	11,210	3.3	1.7	2.8	92.2
J. Financial intermediation	101	5,732	18.1	13.0	68.9	188	16,813	2.5	1.9	11.1	84.5
K. Business activities	106	4,359	35.7	6.9	57.2	173	8,074	0.6	0.9	9.7	88.8
M. Education	19	1,853	71.1	6.5	22.4	6	366	2.2			97.8
N. Health & social work	52	1,814	26.5	8.5	64.9	7	309			35.0	65.0
O. Other community, social & personal services	32	985	15.3	15.7	68.9	29	2,587	9.4		2.9	87.6
Unclassified	3	25	24.0	56.0	20.0						
	1,463	75,379	32.1	13.5	54.1	1,441	1,02,572	1.5	0.8	4.9	92.8

Totals include unclassified.

- **Home Countries**

Official reporting of the inflows suggests that for about 40% of the inflows during the period, Mauritius was the immediate home country. (Table-11) Obviously, this information does not meet the reality test. This was followed by Singapore, again an unlikely home country for $23 bn. inflows. Japan, United Kingdom and the Netherlands follow at a distance. US was at the sixth position accounting for less than 5% of the inflows. Tabulations based on the corporate headquarters of the ultimate parent company of the foreign investors, attempted by us, change the picture radically. Importantly, US jumps to the top with a little more than one-fourth of the total inflows under study. The surprising second was India-related investors with a share of nearly two-fifths. The United Kingdom, another developed country major global investor, almost doubles its share to reach the third position. Japan follows and its share also increases substantially. Germany and France are two other major developed country investors whose shares increased after the reclassification. Singapore falls from the 2nd position to the 8th with a share of 2.4%. Foreign investors who might have been owned by India-related investors either on their own or in combination with private equity investors too figure among the top 10.

Table-11: Shares of Immediate Home Country and Country of Headquarters of Foreign Investors in the Inflows

	Immediate Source Country	*Investment ($ mn.)*	*Share in Total (%)*			*Investor's Headquarter Country*	*Investment ($ mn.)*	*Share in Total (%)*
1	Mauritius	68,338.8	40.4		1	USA	46,919.2	26.7
2	Singapore	23,138.1	13.7		2	India Related	34,006.5	19.4
3	Japan	13,344.2	7.9		3	United Kingdom	21,183.2	12.1
4	United Kingdom	10,592.0	6.3		4	Japan	16,275.3	9.3
5	Netherlands	8,967.1	5.3		5	Germany	8,224.5	4.7
6	USA	7,672.9	4.5		6	France	6,867.3	3.9
7	Cyprus	6,735.5	4.0		7	Malaysia	4,403.6	2.5
8	Germany	5,212.6	3.1		8	Singapore	4,195.0	2.4
9	NRI	4,404.6	2.6		9	India+	3,940.9	2.2
10	France	2,856.9	1.7		10	Hong Kong	3,913.9	2.2
11	Switzerland	2,093.0	1.2		11	Switzerland	3,095.5	1.8
12	UAE	1,806.0	1.1		12	UAE	2,563.6	1.5
13	Spain	1,412.7	0.8		13	Netherlands	2,463.3	1.4
14	South Korea	942.7	0.6		14	Norway	1,559.9	0.9
15	Italy	897.7	0.5		15	Italy	1,407.7	0.8
16	Luxembourg	891.9	0.5		16	Qatar	1,228.4	0.7
17	Cayman Islands	844.5	0.5		17	Spain	1,200.3	0.7
18	Hong Kong	812.5	0.5		18	Russia	1,110.3	0.6
19	Sweden	659.4	0.4		19	South Korea	955.2	0.5
20	British Virgin Islands	622.2	0.4		20	Belgium	918.6	0.5
	Others excluding Unidentified	6,721.6	4.0			Others excluding Unidentified	9,224.6	5.3
	Total	168,966.9	100.00			Total	175,425.1	100.0

Note: India+ indicates that it was not possible to ascertain the relative shares of India related investors and PE investors in the foreign investor companies.

Excluding India-related investments and those in whose case the investors could not be identified, bulk of the OPFI came from Developed Europe (46.0%) and North America (35.0%). Other developed countries, East Asia and West Asia were far behind with 6.8%, 7.6% and 4.3% respectively. In case of PEFI however, North America stood at the top with a share of 56.0%. Developed Europe had a share of 25.0% followed by East Asia and West Asia with 13.0% and 5.4% respectively. In all, North America and the Developed Europe accounted for 81% of the portfolio investments (PEFI+OPFI). This is quite understandable. Probably a better way of looking at the source countries is by excluding the financial investors and investors related to India, separately for manufacturing and other major sectors. In both these cases, the sources of funds are more likely to be pooled and hence corporate headquarters would be of less significance. Also more relevant for policy purposes is the behaviour of realistic FDI investors and their corporate headquarters. From that point of view the main sources of RFDI are the developed countries – both in Europe and the Americas.

Tabulations based on Realistic FDI further underline the predominance of investors belonging to the developed countries. In case of total RFDI, developed countries occupy the top five positions and account for 70% of the inflows. In all, 13 of the top 20 are developed countries. (Table-12) Their dominance is even more prominent in case of the RFDI into the manufacturing sector. Out of the top 20, sixteen are developed countries, the outsiders being China, Taiwan, Brazil and Oman. Interestingly, Japan stands at the top with nearly one-fourth of the investment and is closely followed by the US. The top ranking of Japan appears to be due to the takeover of Ranbaxy by Daiichi. Comparison of the two distributions reveals that while most of Japan's RFDI went into the manufacturing sector, that of US was dominated by non-manufacturing activities. Similar was the case with the United Kingdom. Like Japan, Germany and France invested relatively more in the manufacturing sector.

Looking at the RFDI inflows according to different country groupings, one finds that in nine out the 13 sectors the share of developed country investors was quite large and in each of the cases it was above 80%. (Table-13) In case of manufacturing sector and business services it was even above 90%. Share of developed countries was the least in electricity, gas & water supply at 27% in which East Asia had the highest share, and about half in case of construction, transport, storage & communications and health & social work. RFDI investors from developing and transition economies were more prominent in construction, transport & communications. Interestingly, African companies had a significant share in health & social work.

Table-12: Corporate Headquarters-based Distribution of Realistic FDI Inflows

	Total Realistic FDI					*Realistic FDI into the Manufacturing Sector*		
	Investor's Headquarters	*Inflow ($ mn.)*	*Share in Total (%)*			*Investor's Headquarter*	*Inflow ($ mn.)*	*Share in Total (%)*
1	USA	25,308.1	26.6		1	Japan	11,827.1	24.4
2	Japan	15,884.7	16.7		2	USA	11,420.5	23.5
3	UK	11,837.7	12.5		3	UK	5,231.1	10.8
4	Germany	7,029.5	7.4		4	Germany	4,683.0	9.6
5	France	6,555.1	6.9		5	France	4,410.9	9.1
6	Malaysia	4,182.0	4.4		6	Switzerland	2,231.1	4.6
7	Switzerland	2,716.8	2.9		7	Italy	850.1	1.8
8	Hong Kong	2,360.0	2.5		8	Belgium	827.8	1.7
9	UAE	1,719.2	1.8		9	South Korea	770.1	1.6
10	Norway	1,552.2	1.6		10	Spain	709.4	1.5
11	Netherlands	1,429.6	1.5		11	Sweden	640.2	1.3
12	Italy	1,355.4	1.4		12	Netherlands	585.1	1.2
13	Singapore	1,345.1	1.4		13	China	459.7	0.9
14	Spain	1,110.2	1.2		14	Ireland	452.4	0.9
15	Russia	1,102.2	1.2		15	Denmark	442.2	0.9
16	South Korea	936.6	1.0		16	Taiwan	329.4	0.7
17	Belgium	884.2	0.9		17	Brazil	314.0	0.6
18	Denmark	799.1	0.8		18	Oman	261.9	0.5
19	South Africa	753.9	0.8		19	Canada	254.9	0.5
20	Sweden	695.5	0.7		20	Finland	241.4	0.5
	Others excluding Unidentified	5,456.8	5.7			Others excluding Unidentified	1,615.3	3.3
	Total	95,013.9	100.00			Total	48,557.7	100.0

From Table-14 it can be seen that when it comes to inflows other than RFDI into non-manufacturing sectors India related investors were at the top in case of Mauritius, Singapore and Cyprus. Investors from USA and UK were also among the top. Interestingly, Singapore headquartered companies account for a very small proportion of the inflows from the country while some of Singapore's investment was coming through Mauritius. As in the case of Cyprus, it was noted that about 60% of the investment from UAE can be attributed to India-related investors. Looked at in a different manner, about 44% of IRFI was coming through Mauritius and the share rises to a shade below 75% if Cyprus, Singapore and UAE are also taken into account. Mauritius is the most favourite transit point for PEFI as the country accounts for 72% of the investments. The addition of Cyprus and Singapore makes it 90%. Though other portfolio investors depend far less on Mauritius, the share still remains significant at nearly 38%.

Table-13: Shares of Different Regions/Country Groups in RFDI Flowing into Various Sectors

ISIC Section	*Inflow ($ mn.)*	*Major Regions (Shares in per cent)*	*Share of Developed Countries*
A. Agriculture, hunting & forestry	1,317.4	North America (92.7)	100.0
C. Mining and quarrying	2,035.6	Europe (82.9) East Asia (14.6)	84.5
D. Manufacturing	48,665.3	Europe (44.5) North America (24.0) Other Developed (24.8) East Asia (4.1)	93.3
E. Electricity, gas & water supply	2,239.8	East Asia (68.9) Europe (20.5) North America (4.0)	27.5
F. Construction	2,679.9	Europe (25.6) West Asia (23.5) East Asia (23.0) Other Developed (17.0) North America (9.2)	51.8
G. Wholesale & retail trade, etc.	2,975.1	Europe (41.7) Other Developed (29.6) North America (17.1) East Asia (9.9)	88.4
H. Hotels & restaurants	688.8	Europe (54.5) North America (29.4) East Asia (8.6)	86.8
I. Transport, storage & communications	10,331.7	Europe (43.2) East Asia (27.0) Transition Economies (10.4) West Asia (8.6)	53.4
J. Financial intermediation	14,209.3	North America (34.8) Europe (29.8) Other Developed (18.7) East Asia (12.4)	83.2
K. Business activities	7,148.4	North America (61.2) Europe (28.8)	94.2
M. Education	358.0	North America (81.1) Europe (8.6) East Asia (7.0)	89.7
N. Health & social work	200.8	North America (46.2) Africa (41.5) Other Developed (9.3)	58.5
O. Other community, social & personal services	2,267.2	North America (72.9) East Asia (18.7)	81.3
All (excl. unidentified)	**95,117.3**	Europe (38.9) North America (27.4) Other Developed (17.9) East Asia (10.7)	84.2

Table-14: Major Countries Routing their Non-RFDI Investments through Mauritius, Singapore and Cyprus into Non-manufacturing Activities

Mauritius		*Singapore*		*Cyprus*	
Home Country	*Share in Total (%)*	*Home Country*	*Share in Total (%)*	*Home Country*	*Share in Total (%)*
India	34.4	India	54.2	India	54.6
India+	7.1	India+	4.7	India+	7.5
USA	32.6	Qatar	13.8	USA	22.6
UK	12.8	Singapore	13.8	UK	6.1
Singapore	3.1	USA	6.4	Oman	1.0
Hong Kong	2.9	Germany	3.5	Israel	0.5
UAE	0.7	Hong Kong	1.4	Netherlands	0.5
Australia	0.6	Japan	0.7	Switzerland	0.1
Germany	0.6	UK	0.5		
Switzerland	0.5	Switzerland	0.4		
Uncategorised	2.9	Uncategorised	0.3	Uncategorised	7.0
Others	1.7	Others	0.5		
Total	100.0		100.0		100.0

- **Exploring the Acquisitions in the Manufacturing Sector**

It was seen in the above that acquisition of existing shares by foreign investors accounted for a sizeable portion of the officially reported equity inflows. It was also indicated that this categorisation ignores the role of holding companies and investment into new companies which actually start off their operations by taking over existing businesses. It is thus likely to overestimate the possible contribution of the inflows to creation of new facilities in manufacturing and services. Keeping this in view, an attempt has been made to trace the background of each of the manufacturing companies which received RFDI. In parallel, information on shares of foreign investors and the types of other shareholders if any for each of the companies receiving RFDI and which are not amalgamated/liquidated/dormant or from which RFDI has not been withdrawn, was collected. In the process it was possible to identify formation/conversion and break-up of joint ventures with Indian entrepreneurs and hikes in their shares by foreign investors in listed companies.

As mentioned above, out of the 1,012 companies classified under the manufacturing sector 341 companies did not receive RFDI; i.e., about one-third of the manufacturing companies received inflows other than RFDI. The remaining 671 manufacturing companies, including holding companies of manufacturing companies, received RFDI of $48.6 bn. (Table-15) These companies also received an additional $0.9 bn. at various points of time, especially from private equity investors. Out of the 671 companies 29 were merged into other companies. Eight companies have been either liquidated or have defaulted on their filings with the Ministry of Corporate Affairs. Information on the shareholding pattern of the remaining companies was collected from the documents (annual returns) downloaded from the Ministry of Corporate Affairs. In the process, it was discovered that the foreign investors had divested their holdings in 29 companies. In one case it turned out that the share of` foreign investor was acquired by an Indian business house. Due to lack of clarity we could not collect the relevant information in case of the remaining two companies.

Table-15: Foreign Shares in Manufacturing Companies which received RFDI

Foreign Equity Range (%)/ Status	*Breakup of JV*	*Formation of JV (New Cos)*	*Formation of JV (Old Cos)**	*Listed*	*Delisted*	*Others*	*Total No. of Cos*	*Inflow ($ mn.)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
Less than 10			2	4		1	7	86
10-26			6	5			11	1,315
26-50		13	11	5			29	841
50		11	6				17	1,693
50-76	5	15	28	34			82	13,450
76-90	1	3	5				9	352
90-95		6		1	2	4	13	415
96-99	5				2	9	16	729
99-100	63				6	349	418	28,204
Sub-total	**74**	**48**	**58**	**49**	**10**		**602**	**47,084**
Merged	4						29	693
Default/Liquidation							8	184
Divested	15		1				29	516
Unclassified							3	85
Sub-total	**19**		**1**				**69**	**1,477**
Total	**93**	**48**	**59**	**49**	**10**		**671**	**48,561**

* In cases of lower ranges of RFDI share, the foreign investments could be termed as strategic investments as there may be no explicit joint venture agreements.

Out of the remaining 602 companies for which we have collected and tabulated information based on the latest shareholding pattern, it was found that in case of as many as 418 companies the foreign share was either 100% or was 99% or more. In case of 120 other companies, foreign share was above 50% but below 99%. However, 35 of these were listed on the stock exchanges. Joint ventures broke up in case of 11 companies but since these were also listed, there still remained some public shareholding. Four others were delisted. Thus in these 50 cases, there was no identifiable Indian partner and the foreign owner would not have to share operational space. Thus 468 companies (418+50), or 78% of the total, can be termed as wholly foreign-controlled. These companies accounted for 84% of the RFDI received by the 602 companies. 33 older companies were transformed into joint ventures with the entry of foreign investors. Another 24 new companies were organised as joint ventures. Foreign companies were equal partners in 11 new companies and six older companies. Presently they hold minority shares in case of only 47 companies or 8% of the total. RFDI investor's share was less than 10 per cent in only seven companies. The data clearly indicate the foreign investors' preference for unambiguous control. It would be difficult to predict how long the joint ventures will survive. The more likely scenario is that in case of older companies which were converted into JVs, the foreign investor will gain full control in due course. It could go either way in case of the newer companies. Unlike in the earlier regime when there were restrictions on foreign shares, in the new regime JV is little preferred by foreign investors and sooner than later many of the JVs are likely to be transformed into solely foreign owned/controlled enterprises. The exercise also demonstrates that notwithstanding the definition of FDI being pegged to 10% ownership, in practice, realistic FDI investors would go for much higher shares unless constrained by national FDI policy or for immediate strategic reasons. As far as the manufacturing sector in India, which is practically free from restrictions on foreign ownership, is concerned, the scope for Indian entrepreneurs forging joint ventures and learning in the process is rather small. Equally importantly, the scope for independent transfer of technology too appears quite narrow.

This scenario does not give raise to the hope for Indian entrepreneurs learning through forming joint ventures. It is also likely that foreign investors would not like to transfer advanced technologies to unaffiliated firms especially when they also happen to invest in India. Thus, freedom to FDI and independent transfer of technology do not go together and Indian companies will have to make their own efforts to improve on the technological front. Out of the 602 companies as many as 242 experienced some form or other acquisition (either whole of a company or a part of it).[19] (Table-16) This could have happened at any time in the past. Such companies accounted for a little more than half of the inflows received during the period. Though the number was relatively small, further investments by foreign investors to buyout the Indian partners/public investors accounted for another 16.8%. In 12 existing companies foreign investors made an initial entry which probably could lead to their eventual takeover. Overall, 300 companies or nearly half of the total were associated with some form of relinquishing of ownership by the local investors and such companies accounted for as much as 73.2% of the RFDI. The remaining 302 companies appear to be unaffected by any other acquisition or equity hike by foreign investors in companies that have been operating in India for a long time. These accounted for only about 26.8 per cent of the RFDI received during the period. We are conscious that there could still be some companies which had an acquisition-past or the funds received were substantially utilised for expansion through acquisition. Keeping in view this significant development and in the context of the substantial increase in the share of manufacturing sector in inflows since 2010, the data were analysed further.

Table-16: Distribution of 602 Manufacturing Companies Receiving RFDI according to the Mode of Entry/Status

Entry Mode/Status	*Number of Companies*	*RFDI Inflow ($mn.)*	*Share (%)*	
			Companies	*Inflows*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
Acquisition as base	242	25,340	40.2	53.8
Buying out of Indian JV Partners	22	2,413	3.7	5.1
Hike/Consolidation of control in listed companies	24	5,503	4.0	11.7
Buying into Older Companies	12	1,233	2.0	2.6
Sub-total: Older Companies	***300***	***34,489***	***49.8***	***73.2***
Entry through New Companies	261	11,016	43.4	23.4
Formation of New JVs with Indian Companies/Partners	41	1,580	6.8	3.4
Sub-total: New Companies	***302***	***12,596***	***50.2***	***26.8***
Total	**602**	**47,085**	**100.0**	**100.0**

19 Re-entry of Coca-Cola replacing Parle's soft drinks business is a prime example.

- **Factors behind the Increase Manufacturing Sector's Share during 2010-2014**

A point that is generally missed while analysing the inflows is that foreign investors could increase their stakes/level of investment in an Indian company in stages. Thus, inflows reported in a year could be a follow up of the investment in a project that was initiated sometime back or the investments could be utilised to consolidate control by buying out the exiting public investors or JV partners. Thus, the receiving companies need not necessarily be incorporated during the year. It is evident from Table-17 that most of the investment that came in since April 2010 was on account of companies incorporated in the earlier periods. In fact, companies incorporated prior to 1992 accounted for the largest amount. Further, 42% of this investment was on account of hiking their shares in listed companies by foreign parent companies. Only $3.8 bn. out of the $38.9 bn. received during the period is attributable to companies incorporated since 2010. Even if one examines the 302 new companies only, it is evident that most of the inflows were on account of companies incorporated prior to 2010. (Table-18). In fact, companies incorporated during 2010-2014 accounted for 17.3% of the RFDI that came in the second period and 11.1% of the total inflows in the period into these companies. This is one dimension of the increase in the share of manufacturing sector during the second period, noted above. (Table-3)

Table-17: Inflows into Manufacturing Companies

(Amount in $ mn.)

Period of Incorporation	*Sep 2004 to March 2010*			*April 2010 to March 2014*			*Both the Periods*
	Non-RFDI	*RFDI*	*Total*	*Non-RFDI*	*RFDI*	*Total*	
Pre-1992	4,804	7,091	11,895	3,956	8,018	11,974	23,869
1992-1995	661	1,694	2,355	696	3,211	3,908	6,263
1996-2000	1,020	3,426	4,446	664	9,009	9,673	14,119
2001-2005	1,068	2,261	3,329	417	1,329	1,746	5,075
2006-2009	726	2,151	2,877	1,017	6,728	7,745	10,623
2010 & after				182	3,641	3,823	3,823
Grand Total	**8,278**	**16,624**	**24,902**	**6,933**	**31,937**	**38,870**	**63,772**

Table-18: Inflows into the 302 New Manufacturing Companies

(Amount in $ mn.)

Period of Incorporation	*Sep 2004 to March 2010*			*April 2010 to March 2014*			*Both the Periods*
	Non-RFDI	*RFDI*	*Total*	*Non-RFDI*	*RFDI*	*Total*	
Pre-1992	4,773	140	4,913	3,956	445	4,401	9,314
1992-1995	567	510	1,077	499	537	1,036	2,114
1996-2000	1,020	820	1,840	664	1,257	1,921	3,761
2001-2005	1,068	800	1,868	404	810	1,214	3,082
2006-2009	723	1,229	1,953	1,017	4,471	5,488	7,441
2010 & after				182	1,576	1,759	1,759
Grand Total	**8,151**	**3,500**	**11,651**	**6,723**	**9,096**	**15,819**	**27,470**

It was suggested earlier that while acquisition-related inflows were forming a substantial portion of the total inflows, official classification fails to fully reflect the foreign acquisitions of existing companies and businesses in India. In view of the requirement of extensive data we have to restrict the exercise to the manufacturing sector only. While accepting official classification of acquisition-related inflows, we have additionally tried to trace the possible deployment of the other inflows in acquisitions. The exercise was also intended to throw more light on the post-2009 developments wherein the manufacturing sector increased its share in the inflows substantially. The results of the exercise are presented in Table-19. While the official data show that acquisitions accounted for 33.8% of the inflows into the manufacturing sector which received RFDI, our estimate puts it far higher at 55%. (Chart-3) The difference between the two estimates was substantial in case of companies incorporated during 1996-2000 and after 2009. When looked at separately for Period 1 and Period 2, the estimated share of acquisition-related inflows turns out to be almost equal at 55.6% and 54.8% respectively, thereby indicating that along with increased inflows into the sector, the volume of acquisition-related inflows also increased: from $9.2 bn. to $17.5 bn. This is the second dimension of the increased share of manufacturing sector in the period since 2010-11. It thus appears that inflows into the older companies and acquisitions explain the higher share.

Table-19: Share of Acquisitions in RFDI into the 671 Manufacturing Companies

(percentages)

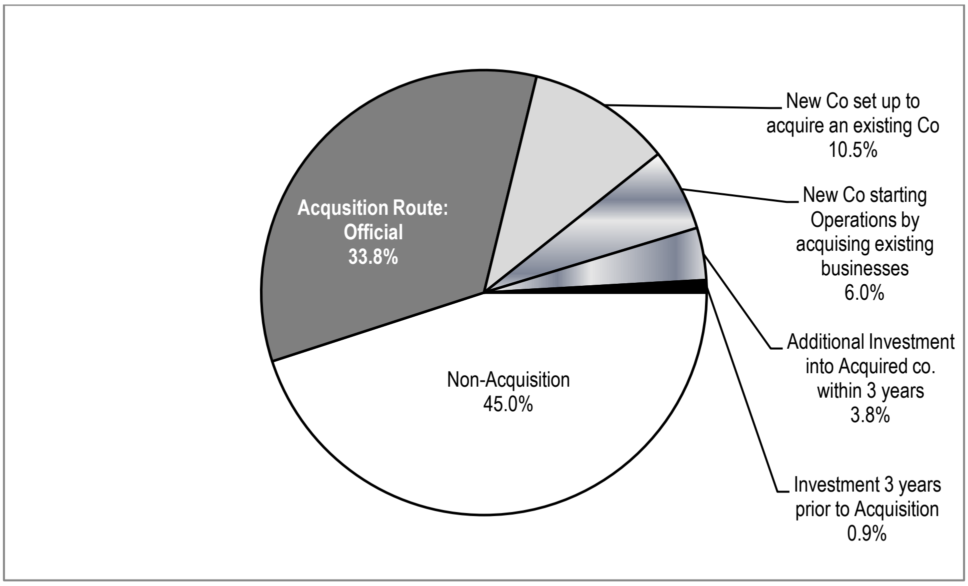
Period of Incorporation	*Share of Acquisitions (%)*	*Our Classification*				*Estimated Total*
	Official Data	*New Co Set up to Acquire Existing Companies*	*New Co Starting Operations by acquiring Existing Businesses*	*Additional Investment into Acquired company within 3 years*	*Investment 3 years prior to Acquisition*	
Pre-1992	85.5	3.6	0.5	1.4	1.7	89.7
1992-1995	10.8	0.3	5.0	3.2	1.6	20.9
1996-2000	18.9	25.6	2.4	9.9	0.1	56.9
2001-2005	9.4	13.7	4.4	1.1	0.5	29.0
2006-2009	6.0	0.9	12.0	2.0	1.0	21.9
2010 & after	5.0	21.7	29.4	0.4	0.0	57.3
All Cos	**33.8**	**10.5**	**6.0**	**3.8**	**0.9**	**55.0**

A note of caution, however, seems to be warranted when analysing year-wise inflows. It is understood that the RBI has to be informed first within 30 days of receipt of the share application money and later again within 30 days of issue of shares. [20] However, even though the *SIA Newsletter* reports "FDI Equity Inflows Received" during a month, one is not sure at what stage the inflows are reported publicly. If the inflows are reported at the first stage, there will not be much gap between inflows and

[20] RBI, "FAQs: Foreign Investments in India" updated upto February 10, 2015. https://www.rbi.org.in/commonman/English/Scripts/FAQs.aspx?Id=15

reporting. If they are reported at the second stage the gap could be considerably long. A few cases we came across while looking for further details on the foreign shareholders from the shareholding pattern of companies which received inflows suggest this possibility. In some cases the month of inflow appears to be the month in which the foreign shareholder actually transferred his shares to others including local ones!

Chart-3: Shares of Different Types of Acquisition Routes in the RFDI Inflows into the Manufacturing Sector



Hinduja Realty Ventures Ltd allotted equity shares to Rabna Holdings Ltd., Mauritius on 8th, 10th, 14th and 17th of October 2013 for a total consideration of Rs. 155 crore. The SIA Newsletter reports that inflows of an equal amount came in four tranches in February 2014. Since the shares would not have been issued without receiving the consideration, there appears to be a three month gap between the issue of shares and their reporting.

In a few cases, data entry errors seem to be responsible for country misclassification. For instance in the month of May 2009 it was reported that DKV international Health Holding of Germany invested $151.8 mn in Apollo Energy Pvt Ltd under the automatic route of RBI. In the same month it was also reported that DKV Intel Health Holdings AG of 'Indonesia' invested $15.18 mn. in the same company. Clyde Bergmann Investments Pvt Ltd was shown as belonging to UK in two entries and to Belize in another entry. One is not sure whether it is Larizola Ltd or Larizole Ltd and whether it belongs to Belize or Cyprus. Such occurrences may be very few and they may not make material difference to the overall inflows but they do indicate the possible types of mistakes the data could be exposed to.

- **RFDI Flows into different Manufacturing Industries and Acquisitions**

The sectoral level of inflows presented in Table-6 provided only a glimpse of the inflows into the manufacturing sector and that too it combined all types of inflows. In the following we make an attempt to present a detailed picture of RFDI flows into the manufacturing companies. Keeping in view the fact that acquisition-related inflows formed a major part of the inflows, this aspect will be dealt with at the broad sectoral level as also for some selected industries. As expected, the pharmaceutical sector accounted for the largest amount of inflows and because of it, the chemicals and chemical products sector attained the top position. While official data suggests that nearly half of the inflows into pharmaceuticals are acquisition-related, our estimates suggest that their share could be as high as 94%. (Table-20) If one includes industries allied to the pharmaceutical sector like bottles, syringes, packaging, etc., the total share of the sector works out to 22.7%. The second most important industry within the chemicals is soaps, detergents and cosmetics. In this sector too, share of acquisition related inflows was quite high at almost 80%. The takeover of pharmaceutical companies has become a matter of concern both from public health point of view and large export earnings the sector has been making. A separate study has, therefore, been attempted to understand the nature of inflows into different components of the healthcare sector (both manufacturing and services) at a much disaggregated level and also by taking into account much smaller tranches of inflows. (see http://isid.org.in/pdf/WP187.pdf)

The automobiles sector follows chemicals with $7.6 bn. inflows. In terms of the number of companies also it is quite important as 124 companies are directly associated with it. If one takes into account the allied industries like automotive tyres, electricals, paints, etc. the share works out to almost 20% of the total RFDI inflows into the manufacturing sector. In fact, when the 302 new companies are examined separately, 46% of the RFDI inflows, during the second period was on account of automobiles and allied industries. In this sector, role of acquisitions is quite small as it involved developing new facilities. There were, however, some break-ups of joint ventures some of which are reflected in this exercise. On hindsight it appears that had tariff protection and performance requirement measures were not resorted to, this level of linkages might not have developed. While the sector has attracted large inflows, it is also cited as an example of high royalty payments. In view of the importance of the sector in terms of its fast growth and the large inflows, a separate study looked at the nature of transactions, including royalty payments, between Indian affiliates and their foreign parents and affiliates.

Table-20: ISIC Division-wise Distribution of RFDI Inflows into the Manufacturing Sector and the Share of Acquisition-related Flows

ISIC Division/Class	*No. of Cos.*	*RFDI Inflow ($ mn.)*	*Share of Acquisitions (%)*		*Share in Inflows (%)*
			Official	*Estimated*	
15. Food products and beverages	**50**	**4,900**	**21.5**	**38.5**	**10.1**
1551 Distilling, rectifying and blending of spirits; etc.	10	1,779	40.0	62.9	
1554 Soft drinks; production of mineral waters	3	1,684	3.7	3.7	
17. Textiles	**6**	**164**	**6.3**	**62.7**	**0.3**
18. Wearing apparel; dressing & dyeing of fur	**11**	**235**	**11.2**	**40.5**	**0.5**
19. Tanning & dressing of leather; mfr. of footwear, etc.	**2**	**35**	**14.5**	**14.5**	**0.1**
21. Paper and paper products	**4**	**405**	**76.8**	**81.6**	**0.8**
22. Publishing, printing & reproduction of recorded media	**15**	**176**	**30.7**	**30.7**	**0.4**

ISIC Division/Class	*No. of Cos.*	*RFDI Inflow ($ mn.)*	*Share of Acquisitions (%)*		*Share in Inflows (%)*
			Official	*Estimated*	
23. Coke, refined petroleum products & nuclear fuel	**10**	**537**	**13.8**	**13.8**	**1.1**
24. Chemicals and chemical products	**109**	**15,749**	**49.7**	**82.0**	**32.4**
2423 Pharmaceuticals, medicinal chemicals, etc.	41	10,709	49.3	94.3	
2424 Soap & detergents, perfumes & toilet preparations	6	2,265	79.0	79.0	
2411 Basic chemicals, except fertilizers	18	1,228	6.6	10.1	
25. Rubber and plastics products	**25**	**1,288**	**23.5**	**32.7**	**2.7**
2511 Rubber tyres and tubes; retreading of rubber tyres	4	774	3.4	13.0	
2520 Plastics products	15	382	70.7	80.4	
26. Other non-metallic mineral products	**31**	**3,674**	**35.4**	**85.0**	**7.6**
2694 Cement, lime and plaster	14	2,630	28.0	94.6	
2691 Non-structural non-refractory ceramic ware	3	446	45.9	54.7	
2692 Refractory ceramic products	5	310	87.1	90.2	
27. Basic metals	**38**	**2,874**	**4.7**	**10.9**	**5.9**
2710 Basic iron and steel	29	2,476	2.5	7.4	
28 Fabricated metal products, except machinery & equip.	**26**	**1,101**	**10.2**	**18.6**	**2.3**
2899 Other fabricated metal products n.e.c.	6	702	0.0	0.0	
2891 Forging, pressing, stamping & roll-forming of metal	8	197	49.5	67.8	
29. Machinery and equipment n.e.c	**107**	**3,576**	**34.4**	**42.9**	**7.4**
2924 Machinery for mining, quarrying & construction	19	894	51.7	58.5	
2930 Domestic appliances n.e.c.	13	506	21.7	45.3	
2911 Engines & turbines (ex. aircraft, vehicle, etc. Engines)	10	474	1.7	1.7	
30. Office, accounting and computing machinery	**3**	**165**			**0.3**
31. Electrical machinery & apparatus n.e.c.	**51**	**4,562**	**63.0**	**88.0**	**9.4**
3110 Electric motors, generators and transformers	14	1,638	85.3	93.7	
3190 Other electrical equipment n.e.c.	20	1,496	77.0	88.2	
3120 Electricity distribution and control apparatus	5	907		91.0	
32. Radio, television & communication equip.& apparatus	**29**	**850**	**8.2**	**19.8**	**1.8**
3210 Electronic valves & tubes & other components	19	546	12.8	30.8	
33. Medical, precision & optical instruments, watches, etc.	**17**	**442**	**41.9**	**43.3**	**0.9**
3311 Medical & surgical equipment, orthopaedic appliances	6	210	26.6	29.1	
3320 Optical instruments and photographic equipment	4	97	48.5	48.5	
34 Motor vehicles, trailers and semi-trailers	**109**	**6,676**	**10.0**	**15.2**	**13.7**
3410 Motor vehicles	21	4,409	6.2	12.0	
3430 Parts & accessories for motor vehicles & their engines	86	2,226	16.7	20.3	
35 Other transport equipment	**15**	**882**		**10.4**	**1.8**
3591 Motorcycles	6	643		11.8	
3520 Railway and tramway locomotives and rolling stock	5	170			
36 Furniture; manufacturing n.e.c.	**14**	**270**	**63.1**	**84.4**	**0.6**
Grand Total		**48,561**	**33.8**	**55.0**	**100.0**
Memorandum Items:					
Automobile Sector & allied industries	*170*	*9,566*	*9.6*	*16.1*	*19.7*
Pharmaceuticals	*52*	*11,000*	*49.8*	*93.9*	*22.7*
Food	*55*	*5,537*	*19.9*	*30.8*	*11.4*

Food products and beverages occupies the third position with $4.9 bn. RFDI. It is significant to note that within this sector alcoholic beverages claim the maximum share closely followed by soft drink and bottled water companies. Though such companies do market products like sweetened fruit juices and savouries like chips, their essentiality and contribution to India's food processing is highly debatable. It appears that India neither attracted FDI into the right type of sectors nor, the amounts were large. Indeed, quite a large portion of the investment went into replacing the existing owners. The case of Coca-Cola which replaced Parle's brands, in the early years of liberalisation, is well known. Pepsi bought its domestic partners, namely Voltas and Punjab Agro. Bunge took over the edible oil business of Hindustan Unilever (including the popular 'Dalda' brand). Similarly, Heinz took over the family products division of Glaxo (along with Glucon-D, Complan and Sampriti), Danone took over Farex baby food brand. One can cite a number of instances which range from ready-to-cook foods to spices and rice.

Some of the leading foreign edible oil/wheat flour companies besides taking over local manufacturing facilities/brands, are also marketing the products of other such units. For instance, Cargill bought *Sweekar*, *Rath*, *Gemini*, etc. It markets wheat flour (Sampoorna) and edible oils (Nature Fresh) manufactured by local producers. Similar is the case with the General Mills' (Pillsbury) wheat flour and Adani Wilmar's split gram and edible oils, Pepsico's chips and other snack items. Interestingly, in a few cases more than one foreign company sells the products of the same local manufacturer who also supplies to competing Indian companies. Neither Pepsi nor Coca-Cola (could) kill the brands acquired from Indian companies – e.g. *ThumsUp* and *Uncle Chipps.* Amway India for a long time, besides imports, depended on the products of Hyderabad-based, Sarvotham Care Ltd (SCL). The other clients of SCL include Pfizer, Astrazeneca, GSK, Gillette (P&G), Bayer as also Dr. Reddy's, Cipla and Wipro.[21] It is only very recently that Amway has set up its own manufacturing facilities. The outflows during the past few years on a small equity base were described in the Discussion Note on MBRT (see: http://isid.org.in/wp-content/uploads/2020/05/DN2004.pdf). On the other hand, clients of Dynamix Dairy Industries Ltd, a major food packaging company renamed as Schreiber Dynamix Dairies Ltd after its majority acquisition by Schreiber of USA, includes many multinational food companies as also NDDB's Mother Dairy. Incidentally, Tetra Pak broke away from the joint venture with NDDB. In the end, for most consumer items it is a question of trading on the strength of brand names on which many pay royalties to their parent companies.

Electrical machinery & apparatus which attracted $4.6 bn RFDI, and which is considered to comprise medium high technology industries, witnessed a very high level of displacement of existing investors. Acquisition related inflows accounted for 88% of the RFDI into this sector. Thus, the inflows may not have resulted in developing substantial new production capabilities. Non-metallic mineral products which include

[21] http://www.indiamart.com/s-careltd/aboutus.html and http://sarvothamcare.com/index.php/discover-sarvotham-care/global-partners

cement as well as ceramic products is another sector in which acquisitions claimed quite a large share at 85%. In the electrical machinery & apparatus sector which attracted $3.6 bn. also acquisitions played a significant role as the related inflows accounted for 42.9% of the inflows. Within this sector, however, acquisitions were more prominent in case of construction machinery and domestic appliances. The next important sector in terms of RFDI was basic metals which received $2.9 bn RFDI. The share of acquisitions in this sector is quite low at 10.9%. However, a closer look at individual company data suggests that almost 38.1% of the inflows were accounted for by JFE Steel Corp Japan's investment in JSW Steel. The Japanese company took a 15% strategic share in the Indian company by subscribing to newly issued shares. The Japanese company also had a nominee on the Board of JSW Steel. It would be difficult to say how this relationship would develop in future. Incidentally, UNCTAD treated this as one of the $1 bn and above cross-border M&A deals during 2010. If this investment is kept away, one finds that the industries related to the automobile sector account for almost one-third of the inflows.

In case of rubber and plastic products also the relationship with the automobiles sector is evident. Sub-sectors related to the automobiles industry accounted for two-thirds of the inflows into this industry group. In case of fabricated metal products category, investment into a single company, Can Pack India Pvt Ltd accounted for 54.3% of the total RFDI into the sector. The company produces two-piece aluminium beverage cans which are mainly used by the soft drinks and breweries industries. Investment into Rexam HTW Beverage Can (RHBC) also falls in this category. Once these investments are taken out, automobile sector related industries again claim a substantial share of inflows (45%) into this industry. Interestingly, RHBC which was started as a 51:49 joint venture between Rexam UK and Hindustan Tin Works (HTW) remains a JV (according to the latest available Articles of Association, but as the foreign investor progressively increased its shareholding by infusing additional capital, the share of HTW fell to as low as 0.77%. However, HTW has been dropped from the name of the company recently. Obviously while the inflows cannot be categorised as acquisition-related, in effect, the JVs future was sealed much earlier.

The remaining sectors received low volumes of RFDI and together they account for 8.6% of manufacturing RFDI. These include textiles and labour intensive sectors like wearing apparel and leather items. Inflows on account of acquisition of Andhra Pradesh Paper Mills account for bulk of the RFDI into paper and products. Coke and petroleum refining sector is dominated by the joint venture between Bharat Petroleum Corp and Oman Oil Co. which accounted for nearly half of the inflows. Inflows into technology intensive sectors namely, (i) office, accounting and computing machinery, (ii) radio, television & communication equipment and (iii) medical, precision & optical instruments, watches are not only quite small given the relatively large number of companies involved, the average inflows work out to very small amounts thereby raising doubts about the extent of localisation of production. Even among the 46 companies in categories (ii) and (iii) some form of ownership transformation took place. While four companies have defaulted, in one company the foreign investor divested. The sectors were also characterised by acquisitions, breakup of joint ventures, replacement of one foreign investor by another and consolidation of shareholding by the foreign investors. In view of this, the inflows that could have been invested in building new capacities would be even smaller. It is well-known that the Information Technology Agreement (ITA) adversely affected the development of India's electronics industry. Obviously, the low level of FDI in the industry is its reflection.

- ***Implications for Location***

Given the substantial role played by non-RFDI investors and almost half of the companies not receiving RFDI, and acquisitions being a dominant form of inflows in the manufacturing RFDI, it will have significant implications for studies seeking to relate inflows with state level attractiveness. In such cases the decision to locate a project rests solely with the Indian entrepreneur. Some of the projects could be located closer to the user industries as in the case of the automobile sector which has extensive backward linkages. Added to this, the major role played by acquisitions, including buying into older companies, also weakens the relationship between the characteristics of individual states and location of FDI projects. One also should be aware that there could be multi-plant operations due to which the investment attributed to a state based on the companies' registered offices, need not be entirely invested in the state. As far as the manufacturing sector is concerned, the heavy concentration in a few sectors means location will be dependent more on sectoral requirements instead of other endowments of a state. Further, from the perspective of the impact on the regional economy, services and manufacturing differ significantly. Service enterprises are more likely to have multi-state operations.

By Way of Summing up

There are multiple dimensions to the increase in India's annual FDI inflows since 1991 when India started widening the scope for the participation of FDI. One major break came in 2000-01 with the change in the reporting practices – inclusion of reinvested earnings, equity capital of unincorporated bodies and other capital to the core of the inflows which are referred to as 'Equity Inflows'. The new items were so significant that they boosted the Equity Inflows by nearly 46% during 2000-01 to 2014-15. Re-invested earnings have been a major component of the new items as they accounted for 76% of the amounts attributable to new items. Understandably, re-invested earnings are not real cross-border flows and are included in the inflows to balance the country's foreign assets and liabilities. Being more a function of the past investments, reinvested earnings do not necessarily reflect the attractiveness of the country. Other capital consists essentially of loans from parents and affiliates and these have to be repaid eventually.

On its part, a major component of the Equity Inflows is the inflows on account of buying out of existing enterprises or investors (both domestic and already existing foreign). Official data suggest that M&A related inflows account for a little over one-fourth of the equity inflows. Such inflows would not have contributed to the creation of new capacities and facilities as the amounts go into the hands of the investors rather than making additional resources available to the acquired entities. The official figures are, however, an underestimate as inflows deployed indirectly in the acquisitions are not classified as such in the official data. An indication of this can be gauged from the fact that against the one-third share of acquisitions suggested by the official data, our estimates find that acquisition-related inflows into the manufacturing sector companies receiving what we term as realistic FDI accounted for more than half of the total.

A third dimension to the inflows is that following progressive opening of various sectors of the economy, especially services, to FDI, the share of manufacturing, the initial focus of the official FDI policy, fell sharply in the reported Equity Inflows during 2006-2009 to 19%. Its share recovered dramatically after 2010-14 to 41.4%, *i.e.,* a little more than its share in 2000-2005. This recovery, however, appears to have some distinct characteristics: (i) fall in the inflows into sectors like housing, construction and real estate development, (ii) the inflows were mainly into the older manufacturing companies; and (ii) acquisitions played a major role in the inflows received by the sector.

Our classification of the Top Inflows, which accounted for about 87% of the Equity Inflows during September 2004 to March 2014, according to the nature of foreign investor, suggest that only a little more than half of the Equity Inflows during the decade of 2004-05 to 2013-14 could be termed as realistic FDI (RFDI). This was because significant amounts came from private equity, other portfolio investors and a variety of India-related investors. Thus, a good part of the reported inflows do not possess the characteristics that are associated with FDI such as advanced technology, managerial expertise, brand names, long term interest, etc. which are the prime attractions for the developing countries as these are made by financial investors and Indian entrepreneurs and Indian diaspora. In fact, out of the 2,904 entities which received the inflows, as many as 1,463, or in about half of the cases, there was no involvement of RFDI.

Official data show that during January 2000 to March 2015, majority of the FDI Equity inflows went into non-manufacturing sectors. There is, however, heavy sectoral concentration in the inflows into the manufacturing sector which received about a third of the total inflows -- four broad sectors, namely, pharmaceuticals ($13.2 bn), automobiles ($12.5 bn), and chemicals ($10.4 bn) and metallurgical industries ($8.6 bn) received the largest amounts. Other high technology industries, namely, electronics ($1.4bn.), medical and surgical appliances ($0.93 bn.) and machine tools ($0.7 bn.) in which foreign companies are expected to have an edge over domestic enterprises, FDI inflows were quite much small. The share of IT and related sectors, which was among the few services that had earned net foreign exchange for the country, had progressively declined. Between April 1999 and end of March 2008, the IT and related sectors accounted for 13.1 per cent of the total inflows, but between April 2008 and March 2014, the share of these sectors had halved to below 6 per cent.

In the liberal policy environment foreign investors have shown the distinct preference for wholly-owned subsidiaries thus grossly reducing the scope for Indian companies to forge joint ventures with them. Out of the 602 RFDI receiving manufacturing companies for which we have collected shareholding data, as many as 468, or 78% of the total, are solo ventures. In only seven cases, the foreign investors' shares were less than 10%. In all, in 63 cases joint ventures broke down giving the foreign investors sole control.

When inflows are grouped according to the headquarters of foreign investors' ultimate parents, Mauritius loses its pre-eminent position as the main source for India's inward FDI. Instead, US emerges as the top investor with a share of a little more than one-fourth. India related investors come as the surprising 2nd followed by United Kingdom and Japan. Singapore also loses its top ranking and falls from 2nd to the 11th position. The top-most raked Mauritius and the 7th placed Cyprus do not find a place even among the top 20 following the reclassification. When it came to the realistic FDI into the manufacturing sector Japan stands first with a shade lower than one-fourth share. It is followed by US, UK, Germany and France, in that order. Except four countries – excluding South Korea which the UN classifies as a developing country -- all the remaining ones in the Top 20 are developed countries. Developed countries account for about 93% of the RFDI into the manufacturing sector. Financial investors, in whose case country of origin may not be that relevant, are mainly from the developed countries, especially the US and UK. Developed countries are less prominent in case of electricity, gas and water supply (27.5%), construction and real estate development (51.8%), transport, storage & communications (53.4%) and health & social work (58.5%).

Acquisition-related inflows dominated a number of industries spreading over many including consumer and capital goods industries. Their share in RFDI at 94.6% was the maximum in cement, lime & plaster industry. Pharmaceuticals and medicines, which received the maximum amount of investment, followed closely with a share of 94.3%. Other industries in which acquisition-related investments had a substantial share were: electric motors, generators, etc. (93.7%), electricity distribution and control apparatus (91.0%), refractory and ceramic products (90.2%), paper & paper products (81.6%), soaps, detergents, etc, (79.0%), plastic products (70%), distilling, rectifying and blending of spirits (62.9%). It should, however, be noted that acquisition does not always mean change in control. Acquisition of shares from public shareholders by listed foreign companies to enhance their stakes would also form part of the acquisition-related inflows.

There are second-order implications of the kind of inflows discussed above. The huge inflows into the construction and real estate development sector by investors seeking large returns, often in a short period, have serious implications for the other sectors of the economy in terms of escalating land prices, land acquisition, proliferation of Special Economic Zones (SEZs), housing for the middle and lower middle income sections, clamour for allowing FDI in retail trade, increased demand for imported luxury fittings and accessories, etc. India needs to rethink about financing its infrastructure through such portfolio and round-tripped investments disguised as FDI. This point needs to be underlined here especially because the FDI policy applicable to this sector was liberalised further in December 2014 by lowering the minimum land/built-up area, providing exemption from the same in case 30 per cent of the project cost is committed to low-cost affordable housing and by explicitly stating that unlike the earlier three-year lock-in period, repatriation or transfer to other non-resident investor(s) would be permitted, albeit on a case-by-case basis. The secondary investments implied in this policy would give a false sense of the country's ability to attract large inflows as they will only be displacing the earlier investments, often leading to lower net inflows. These investments would have major implications for the overall inflows.

Some may justify round-tripping of investments as it facilitates return of flight capital for national development. But there is a more important dimension to the problem. If the investors are adopting this route merely to take advantage of favourable tax regime, it shows how other domestic investors are at a disadvantage. Secondly, investors who route their investments through other countries can invoke the provisions of the Investor State Dispute Settlement (ISDS) mechanisms included in the bilateral investment treaties (BITs) and can initiate litigations against the Indian government before private international tribunals. The key question in this context is: should local Indian investors who contribute substantially to the country's capital formation be discriminated against?

The prevalence of acquisitions in pharmaceuticals shows that they could be sector-specific and thus may be indicative of the uncertain future foreseen by the Indian entrepreneurs in the changed policy environment. But selloff of low-technology, long established consumer brands to foreign enterprises cannot be put in the same bracket. Some of the local manufacturers may be finding it difficult to break into the next stage or to face competition due to lack of access to finances of the required magnitude or the offers by foreign investors were too tempting. On the other hand, even if they could secure finances from PEFI, the terms were so stiff that the recipients had no option but to sell-off more often than not. Access to long term finance from domestic financial institutions could probably have averted this situation. Privatisation not being the main vehicle for M&A related inflows in India, it reflects quite adversely on the state of the India's private sector.

Acquisition-based inflows, which during the past decade constituted a significant proportion of the total inflows, unaccompanied by substantial capacity expansion, may not help India achieve the objective of increasing the share of manufacturing in GDP. Efficiency and productivity gains, which are advanced as the main benefits of M&As alone cannot serve India's objective of faster growth of the manufacturing sector. Instead of taking comfort from additions to gross inflows the need is to analyse the contributing factors for the sell-offs and devise ways to strengthen Indian entrepreneurs. Surpluses from domestic enterprises could have a larger effect on investment and growth as they are more likely to remain within the economy. The extensive support in favour of developing domestic enterprises including on the grounds of absorptive capacity for spill overs provides further justification to such an approach. When India's need is to expand the manufacturing base, the freedom of entry and operation to foreign investors without accompanying performance requirements led to inflows that did not add substantially to its capacities. The cases of pharmaceuticals, electronics and automobiles underline the fact that the FDI policy, instead of following a hands-off approach, need to dovetail other policies, especially the trade policy, to deliver the desired outcomes. On the other hand, the expected efficiency gains were not translated into large net trade balances as can be seen in the accompanying Discussion Note No. DN2010. To this if other forms of foreign exchange outgo like dividends, royalty payments etc., and which have acquired prominence over the recent past are added, foreign companies would be net losers of foreign exchange of a large magnitude. The acquisitions can only accelerate that burden.

Unlike most studies which approach the issue from the aggregate data on acquisitions, the present study based on actual inflows sought to throw better light on the possible contribution of FDI to the growth of the India's manufacturing sector. It made tangible attempts at overcoming the weaknesses of the official data by identifying the inflows meant for acquisitions rather than mere acquisition of existing shares, which approach was also advocated by the OECD. But unlike OECD's view that such "separate treatment of M&A is part of a political reality to which investment analysts have to respond and, in light of the present debate about "strategic sectors", "national champions, etc., the need is likely to grow"[22], it appears to be an economic necessity as India's case seem to suggest. A further attempt has been, therefore, made in to analyse the foreign acquisitions in India's manufacturing sector by also taking into account acquisitions which were not associated with equity inflows.[23]

Hope researchers will take the different dimensions of FDI described above into account while relating it with various economic phenomena, instead of treating FDI as homogenous.

[22] OECD, Benchmark Definition of Foreign Direct Investment, 4th Edition, 2008, p. 31.
[23] See http://isid.org.in/pdf/WP193.pdf