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Towards Understanding the State-wise Distribution of Foreign Direct Investments in the Post-Liberalisation Period

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Towards Understanding the State-wise Distribution of Foreign Direct Investments in the Post-Liberalisation Period

K S Chalapati Rao[1] and M R Murthy[2]

Introduction

As in most developing countries, the perceived benefits of foreign direct investment (FDI), have led to a heavy emphasis being placed on attracting large sums of FDI to India in the post-liberalisation period. Within the country, the same perception has led to different states to vie with each other for the location of foreign investment. They have been making intense efforts to attract investment, in general, and foreign investment, in particular. Representatives of a number of states have visited home countries of foreign investors and presence of 'MNC projects' has been used by some states as a selling point for attracting further investments. It has been argued that the ability of a state to attract FDI depends on the policies of the individual state. For instance, Bajpai and Sachs (1999) noted that relatively fast moving reformers have tended to attract higher investments, both from foreign and domestic investors. On the other hand, the ability to attract FDI has also been associated with development of physical and human infrastructure. It was even pointed out that despite being well-publicised as reform-oriented, Andhra Pradesh could attract only about 4.6 per cent of the total FDI approved till 2003 (Mahendra Dev, 2004). Padhi (2002) noted that the initial level of manufacturing influences the location of FDI more than infrastructure. Morris (2004) noted that FDI tends to concentrate in the largest and best cities and attributed the modest FDI in Gujarat to its inability to develop a city like Bangalore. Based on an examination of state-wise approvals of FDI during 1991-2001, Singh and Srinivasan (2004) noted that variations in FDI across states could be influenced by specific policy initiatives and narrowly focused government investments in infrastructure. Based on a study of new projects that were implemented or were under

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implementation during 1992 to early 1998, Chakravorty (2002) noted that FDI preferred the coastal and metropolitan districts. He, however, noted that with a very small share in the overall, FDI projects were not significant in the total investment.

Most of the studies on FDI inflows during the post-liberalisation period in India, however, have dealt with aggregate level data and that too of approvals only. Because of the substantial gap between FDI approvals and actual inflows, the heavy sector and home country-wise concentration and varying modes of entry, there is a case for taking a closer look at the official data on approvals and inflows to gain better insights into the state-wise distribution of FDI, especially in large manufacturing ventures in the post-liberalisation period. This paper aims at such an analysis to the extent available data permit.

Changes in the Relevant Policy Environment

Since July 1991, following the announcement of the new Industrial Policy, India's industrial regulatory framework has undergone a major transformation. Prior to the liberalisation of the industrial policy in 1991, a number of heavy investment and infrastructure industries were reserved for the public sector. Except for defence, atomic energy and railway transport, all the sectors have since been dereserved. Further, a large number of industries have been freed from the obligation of obtaining an industrial licence. The few industries, which still require an industrial licence under the Industries Development & Regulation Act, 1951 (IDRA), are mainly governed by pollution control, defence and public health considerations.[3]

On its part, the approval procedure and terms of entry for foreign direct investments have been liberalised progressively and extensively. The important steps that have been taken are with regard to the removal of the general ceiling of 40 per cent on foreign equity under the Foreign Exchange Regulation Act, 1973 (FERA); lifting of restrictions on the use of foreign brand names in the domestic market; removal of restrictions on entry and expansion of foreign direct investment into consumer goods; abandoning of the phased manufacturing programme (PMP); dilution of dividend balancing condition and export obligations; liberalisation of the terms for import of technology and royalty payments; and permission to invest up to 24 per cent in equity in small scale units and

[3] These are: distillation and brewing of alcoholic drinks; cigars and cigarettes; electronic aerospace and defence equipments; industrial explosives; hazardous chemicals and drugs and pharmaceuticals (according to the modified Drug Policy). Protection of the small-scale sector is an additional overriding criterion.

reduction in tax rates. Since 1991, not only have the areas open to foreign investment been expanded but also the limits on FDI have been raised progressively. In many cases, foreign investors can establish wholly owned ventures. Since much of the foreign investment is subject to the automatic approval route, prior Central Government permission is no longer required for making the investment.

Industrial licensing system under the IDRA had been a major policy instrument for influencing the location of large projects in India. Industrial undertakings are now free to select the location for a project. The only restriction is in the case of cities with populations of more than a million as per the 1991 census. The proposed location should be at least 25 km away from the Standard Urban Area limits of that city unless the project is to be located in an area that has been designated as an 'industrial area' before 25 July 1991. Similarly, exceptions are also available for electronics, computer software, printing and any other industry which may be notified as a 'non-polluting industry'. Relaxation in the locational restriction is possible if an industrial licence is obtained as per the notified procedure. Location of industrial units is further regulated by local zoning and land use as well as environmental regulations. Statutory clearances relating to pollution control and environment protection are also required from the Ministry of Environment, Government of India for setting up industrial projects in respect of 29 industries. There are, however, no restrictions on setting up administrative and other central offices. Similar is the case with service enterprises.

The Industrial Licensing System under IDRA sought to influence industrial locations through preference for backward areas. With the virtual abolition of industrial licensing this instrument is no longer available. While public financial institutions could still be used to influence project locations due to the emergence of multiple financing options, the institutions' role may have got diminished. Moreover, the institutions are themselves undergoing major transformation, which could further limit their role. In any case, for most large foreign investors, local availability of funds cannot be expected to be a major consideration. This was evident from the fact that the number and amount of capital raised from the Indian stock markets by companies with substantial foreign equity, during the post-liberalisation period, was very small in absolute and relative terms.

Factors Influencing Sub-National Location of FDI

A number of studies have examined the issue of location of FDI at the regional level in the context of balanced regional development as also the states' desire to attract investment as a means of employment generation and as a strategy of economic development. Barring situations of extractive industries and those based on natural resources, it is observed that FDI generally flows into developed areas (Ögütçü, 2002). Further, investors from certain countries tend to go to areas where other establishments from the same country are located.[4] This is likely to further result in FDI getting concentrated in certain regions of various economies. For instance, in China more than 85 per cent of FDI is concentrated in the eastern region, in Brazil the southeastern region accounted for 87.5 per cent of the assets of all companies with foreign participation and in Russia 10 out of 89 regions attracted 83 per cent of the total FDI. One of the factors responsible for this phenomenon is the fact that FDI tends to take advantage of agglomeration economies and is influenced, probably more than domestic investments, by the demonstration effect.

Since most observations on state-wise location of FDI in India in the post-liberalisation period are based on aggregate data, they fail to take note of industry characteristics on the one hand and the mode of entry on the other. Further, as we will discuss later, the impact of FDI establishments may not always be confined to the state where its main operations are located. This is especially so in case of the services sector. Even in case of manufacturing, like the beverages industry, companies tend to have bottling operations spread out in different parts of the country. There is also the tendency on the part of some large companies to augment their sales by marketing the products of unaffiliated units to whom they supply raw materials and possibly technology. Such units could be spread out in different parts of the country.[5] Also, to take advantage of fiscal incentives as also to expand in products reserved for the small-scale sector, some large companies, including FDI companies, get the products made from enterprises located in villages.

Foreign direct investment usually refers to the participation of a foreign investor in the risk capital of an existing or a new undertaking and also having a say in the management.[6] The most common form of FDI flow is through participation in risk capital

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[4] The practice was known to be more prevalent in case of Japanese investors. In the case of USA it was observed that French, German and Japanese greenfield establishments tended to be concentrated in different parts of the country (Shannon et. al., 1999).

[5] This practice is prevalent in a number of consumer goods.

[6] According to IMF/OECD recommendations, direct investment is the category of international investment that reflects the objective of a resident entity in one economy (direct investor) of establishing a lasting interest in an enterprise (the direct investment enterprise) resident in another economy. Ownership of 10 per cent or more (implying the direct investor's ability to influence the management of the enterprise) of the ordinary shares or voting stock is the guideline for determining the existence of a direct investment relationship. The interpretation, however, has a subjective element insofar as it allows for

Contd…

of the host country's joint stock companies. Some of the important ways in which FDI can enter a host country are:

i. Incorporation of new companies for setting up new projects (greenfield ventures) which in turn could be wholly-owned by foreign investors (new or already operating in the host country) or joint ventures with local partners;

ii. Incorporation of new companies for taking over operations of existing companies. The latter could be local-owned or in turn FDI companies themselves;

iii. Acquiring controlling stakes in existing host country companies;

iv. Infusing fresh capital from abroad in existing FDI companies by the same foreign investor either for maintaining his percentage share or to increase it; and

v. Setting up branches. [7]

Table 1
Relationship between Mode of Entry and Project Location

S.No.	*Mode of Entry*	*Choice of Project Location*
	(1)	*(2)*
1	Setting up new projects (greenfield ventures).	
	- New foreign investor (having no local partner)	Free to choose
	- New foreign investor (with local partner)	Possible influence of local partner
	- Existing foreign investor	Tendency to locate nearer to the existing operations
	- Foreign investor a non-resident Indian	Possible home state bias
2	Acquiring controlling stakes in existing companies	No choice
3	Incorporation of new companies for taking over operations of existing companies	No choice
4	Infusing fresh capital from abroad in existing FDI companies by the same foreign investor either to maintain the existing share or to increase it.	No choice

Source: Authors' own compilation.

companies with very low levels of foreign equity to be not taken as FDI ventures based on the expectation that the foreign investor may not always be in a position to exercise control. India has started revising its FDI data in line with the internationally accepted criteria.

[7] Extension of loans/credit between related parties and capitalisation of reserves are not mentioned here because these presuppose other forms of entry.

In the post-liberalisation period FDI has entered India in all these forms. While in popular parlance FDI stands for investment by large multinational corporations, it could also be made by small and medium companies and individuals. Some of these companies can in turn be owned by foreign nationals, non-resident Indians and other persons of Indian origin. The mode of entry and investor type could have some influence on the choice of location. Except in case of mode of entry (i), in all other cases the location is pre-determined and the foreign investor has little choice[8]. In case of takeovers of companies or units, it is inevitable that the FDI venture has practically no alternative but to continue at the same location. In case of hike in foreign equity in existing ventures by the same foreign investor, once again, one cannot expect any other criteria to come into play (Table 1).[9] Even in case (i), proximity to other ventures already promoted by the same investor (foreign or local partner) could have an influence on further investment decisions. Similarly, non-resident Indians (NRIs) could exhibit some bias towards their home states. Thus, to meaningfully explain the locational preferences of FDI in India in the post-liberalisation period, it is necessary to take note of the pattern of approvals and the modes of entry.

Data and Limitations

The official reporting of FDI approvals, however, does not allow much freedom in the classification of foreign investors by the mode of entry and nature of foreign investor. Besides, it suffers from a few other shortcomings. The reported cases include investments which account for less than 10 per cent of the equity of the proposed venture, the qualifying limit for FDI. At times, they also include approvals for overseas capital issues by Indian companies, which is more in the form of portfolio investments by foreign investors. In some cases while it is not specifically mentioned, foreign investors appear to be entities owned/controlled by NRIs. This is especially important not only because NRIs could tend to prefer their home states, but also because some of the NRI investors appear to be non-serious or they do not have the requisite financial strength. On the other hand,

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8 Joint stock companies is the main form in which FDI operates in India. Except in case of banks and airlines, branches of foreign companies -- case (v)-- have a very limited role. Quite a large number of them operate as liaison offices. Hence their location will not be of any significance especially in case of manufacturing ventures.

9 For instance, since the registered office of Hindustan Lever Ltd. is located in Maharashtra, fresh FDI inflow into the company would be credited to the state. This is irrespective of the fact that the company has manufacturing plants in different parts of the country and the company also markets products manufactured by unaffiliated units spread out in different states.

there is no systematic and regular reporting on the actual form of entry especially through takeovers for all the years. One presumes that in case a foreign investor comes in by taking over an existing unit and transfers it to a newly incorporated company -- as opposed to taking over an existing company – it is unlikely to be regarded as a takeover in the official data system.

In case of approvals too there are certain problems because these represent the number of approvals and not the number of ventures. Also, in case a foreign investor replaces another one in a venture, it is treated as fresh inflow thereby causing double counting. There is thus a distinct possibility of multiple counting thereby overestimating the approved investment as also the number of projects.[10] These practices would have implications for state-wise distribution of FDI and could prove significant in the case of states receiving relatively smaller amounts.

Before proceeding further, it may be appropriate to examine the relative position of FDI in the Indian economy, a pre-requisite for it to be able to exert significant influence on her economic development. Compared to many developing countries, the relative magnitude of FDI in the economy in India is small but it is increasing. As per the latest available data, the ratio of FDI stock to gross domestic product (GDP) increased from 0.5 per cent in 1990 to 5.9 per cent in 2004 (UNCTAD, 2005) and that of FDI inflows to gross fixed capital formation (GFCF) increased from 0.2 per cent in 1991 to 3.4 per cent in 2004 (UNCTAD, 1994 and UNCTAD, 2005). Since most FDI enters the private corporate sector, it may be more appropriate to compare FDI inflows with capital formation in the private corporate sector. The corresponding ratios turn out to be 18.0 per cent, 25.9 per cent, 24.9 per cent and 19.2 per cent for the years 2000-01, 2001-02, 2002-03 and 2003-04 respectively.[11] Even taking into account the fact that a substantial part of the FDI goes

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[10] For instance, LG of Korea received at least six approvals with different partners and for different locations (Maharashtra, Madhya Pradesh, Uttar Pradesh and West Bengal, unindicated locations) for consumer electronics and white goods manufacture, during 1992 to 1996, the total investment being Rs. 4,200 million. Similar is the case with BMW, which had received multiple approvals with different partners for manufacturing motorcycles. Three of the initial approvals (two with Escorts and one with Hero Cycles) were worth Rs. 920 million. There were four approvals (three of them for Orissa) for producing pig iron by Mideast Integrated Steel and China Metallurgical Import and Export, the total value of which was Rs. 2,560 million. This venture was in turn a substitute for the failed Kalinga steel project of Caparo.

[11] These are based on the GFCF and inflows data reported in Reserve Bank of India, *Handbook of Statistics on Indian Economy*, 2005.

towards buying stakes in existing enterprises, these figures appear to be impressive and emphasise the need to understand the behavioural pattern of FDI more closely. As we shall see later, FDI does seem to occupy an important position in the larger entities of the Indian private corporate sector.

State-wise Distribution of Approved Investments

The overall value of the investment proposals and their approval by the government has increased substantially since the adoption of new economic policies in 1991. Official estimates place the total value of the approvals till August 2004 at Rs. 2,476,640 million. The available information has serious limitations in reflecting the actual amounts that are likely to flow to different states. If one goes by the official figures for the period up to August 2004, Delhi will be receiving the second largest amount (12 per cent of the total) of foreign direct investment preceded by the top ranking Maharashtra (Table 2). More importantly, in about one-fifth of the cases, location was not indicated at the time of the approval. Such projects account for about 28 per cent of the total investment. While Delhi stands near the top it is obvious that most of these projects will not be located in Delhi. Delhi, in all probability must be representing the neighbouring states or, foreign investors might have used the services of local agents for communication and for doing the initial spadework. It could also be hosting the headquarters of service enterprises whose operations extend much beyond the state of Delhi and may even encompass the entire country.

For all practical purposes Delhi could be clubbed with the 'unindicated' category.[12] It, therefore, means that for almost two-fifths of the investment, the location details are not available. It is relevant to note that the states in the southern and western regions together accounted for about 71 per cent of the total approved investment, excluding Delhi and the unindicated category. Incidentally, Maharashtra, the top ranking state,

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12 Following efforts at bringing in India's data in line with international standards, the government has released revised FDI approvals data after taking out the ADR/GDR amounts of nearly Rs. 500,000 million which in April 2004 accounted for about 17 per cent of the total approved amount. A comparison of the state-wise distribution of approved FDI in April 2004 and May 2004 suggests that the distribution remained broadly the same. However, the share of Maharashtra decreased by 2.82 percentage points and that of Gujarat by 1.86 percentage points. Marginal improvements (0.6 percentage point) were recorded by Madhya Pradesh, Orissa and Tamil Nadu. On the other hand, the share of 'State Unindicated' category increased by 2.67 percentage points.

witnessed equity hikes by a number of ex-FERA companies[13] and takeovers by foreign investors.

Table 2
State-wise Distribution of Approved FDI: August 1991 to August 2004

State	*Approvals*		*Share in Total Amount (%)*
	No. of Financial Collaborations	*Amount (Rs. Million)*	
(1)	*(2)*	*(3)*	*(4)*
Maharashtra	3,655	36,6020	14.78
Delhi	2,457	30,3040	12.24
Tamil Nadu	2,041	22,5830	9.12
Karnataka	2,085	18,8180	7.60
Andhra Pradesh	1,010	11,6090	4.69
Gujarat	658	11,1770	4.51
Madhya Pradesh	187	9,9080	4.00
Orissa	91	8,2290	3.32
West Bengal	481	7,7900	3.15
Uttar Pradesh	562	4,9520	2.00
Haryana	552	3,8750	1.56
Rajasthan	240	2,9110	1.18
Punjab	139	2,1240	0.86
Kerala	262	1,7810	0.72
Himachal Pradesh	42	1,1740	0.47
Goa	210	9980	0.40
Bihar	54	8860	0.36
Assam	4	10	Negl.
Jammu And Kashmir	2	80	Negl.
Others	235	1,7970	0.73
Total of the Above	14,967	1,77,5280	71.68
State Not Indicated	3,515	70,1360	28.32
Grand Total	**18,482**	2,47,6640	100.00

Source: Based on SIA Newsletter, September 2004.
Notes: Excludes American Depository Receipts (ADR)/Global Depository Receipts (GDR) Amounts. In this and the subsequent tables, Bihar, Madhya Pradesh and Uttar Pradesh represent the undivided states.
Negl.: Negligible.

State-wise distribution of FDI does seem to have undergone substantial changes over the years. The total approved amount during 1991-1998 was Rs. 1,812,960 million and that during 1999-March 2004 was Rs. 1,110,620 million. Out of these location details are available for Rs. 1,239,520 million and Rs. 923,980 million respectively. During the second

13 Some of the important foreign equity hike cases in the state include Hindustan Lever, Colgate, Cadbury, Castrol, Procter & Gamble and Bayer.

period, the relative importance of Maharashtra increased substantially (Table 3). While Gujarat, Tamil Nadu and Karnataka were slightly better off, Andhra Pradesh could hold its position. Notable states which lost their shares substantially in the second period were: Delhi, Madhya Pradesh, West Bengal and Orissa. It does appear that progressively, FDI is getting concentrated in the western and southern states. Some of the backward states might be losing their initial appeal.

Table 3
Changes in the State-wise Distribution of Approved FDI between 1991-1998 and 1999-March 2004

State	*Total Approved FDI (Rs. million) 1991 to March 2004*	*Share in Total Approved FDI for which Locational details are known*		
		1991-1998	*1999 to March 2004*	*1991 to March 2004*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
Maharashtra	511,150	17.92	31.28	23.63
Delhi	352,510	18.10	13.87	16.29
Tamil Nadu	250,720	10.98	12.41	11.59
Karnataka	241,380	10.74	11.72	11.16
Gujarat	188,370	8.04	9.60	8.71
Andhra Pradesh	137,450	6.38	6.32	6.35
Madhya Pradesh	99,040	6.16	2.45	4.58
West Bengal	93,170	5.95	2.10	4.31
Orissa	82,290	6.26	0.50	3.80
Uttar Pradesh	50,430	2.45	2.17	2.33
Haryana	38,700	1.78	1.80	1.79
Rajasthan	30,330	1.81	0.85	1.40
Punjab	24,340	1.54	0.57	1.12
Kerala	15,520	0.48	1.03	0.72
Himachal Pradesh	11,740	0.28	0.90	0.54
Goa	9,900	0.38	0.56	0.46
Bihar	8,840	0.18	0.71	0.41
Others	17,510	0.56	1.15	0.81
	2,163,390	100.00	100.00	100.00
State not indicated	760,080			
Total	2,923,580			

Source: Based on data provided in *SIA Newsletters/Annual Issues*.

To gain better insights into the shares of various states in approved FDI, we now look at the shares of the top most five sectors in each state. This exercise is based on the approvals accorded during August 1991 to December 2002. It is interesting to note that in most leading states (excluding Delhi and to a small extent Maharashtra) the top most important contributor was Power & Fuels (Table 4). In case of Delhi, telecommunications had a majority share at nearly 54 per cent. It is only after one ignores power and fuels and telecommunications, that the relationship with a state's resource endowment or, its existing prominence in an industry emerges. For instance, transportation equipment occupies the second position in case of Maharashtra, which was a base for many automobile companies even in the pre-liberalisation period.[14] Similar is the case with Tamil Nadu, which has a major truck manufacturer and two two-wheeler manufacturers apart from a number of ancillary units. Tamil Nadu was in the second position in 1990-91 with a share of 16.4 per cent. The choice of Orissa and Madhya Pradesh for metallurgical industries is quite obvious. Similar is the case with drugs and pharmaceuticals in case of Andhra Pradesh. While in Gujarat, chemicals occupying third place is easy to understand, the emergence of transport equipment has an important dimension to it. It is relevant in this context to note that the General Motors venture in the state was started by taking over Hindustan Motors unit in Halol. It also seems logical that hotels and tourism account for a major share in case of Himachal Pradesh and Kerala.

Table-4

State-wise Distribution of FDI Approvals and Major Recipient Sectors in Each State 1991-2002

	State	*Approved Amount (Rs. million)*	*Share in All-India Total*	*Top Five Sectors and their Share in the State's Total*		*Remaining Sectors' Share (%)*
				Sector	*Share (%)*	
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
1	Maharashtra	494,580	17.37	Telecommunications	17.20	29.49
				Fuels (Power & Oil Refining)	16.59	
				Transportation Industry	14.03	
				Services Sector	13.74	
				Electrical Equipment (including Computer Software)	8.95	
2	Delhi	366,220	12.86	Telecommunications	53.97	17.30
				Transportation Industry	9.90	
				Electrical Equipment #	7.80	
				Services Sector	6.59	
				Hotel & Tourism	4.45	
3	Karnataka	236,070	8.29	Fuels (Power & Oil Refining)	30.27	22.20
				Electrical Equipment #	22.59	
				Services Sector	10.70	
				Transportation Industry	9.82	
				Metallurgical Industries	4.41	
4	Tamil Nadu	209,820	7.37	Fuels (Power & Oil Refining)	46.95	27.64
				Telecommunications	7.20	
				Services Sector	6.82	
				Electrical Equipment #	6.17	
				Transportation Industry	5.21	

[14] Its share in the gross factory sector output of transport equipment and parts in 1990-91 was 28.8 per cent.

	State	Approved Amount (Rs. million)	Share in All-India Total	Top Five Sectors and their Share in the State's Total		Remaining Sectors' Share (%)
				Sector	Share (%)	
	(1)	(2)	(3)	(4)	(5)	(6)
5	Gujarat	185,020	6.50	Fuels (Power & Oil Refining)	55.30	16.36
				Transportation Industry	9.53	
				Chemicals (Other Than Fertilisers)	7.82	
				Telecommunications	5.94	
				Sugar	5.05	
6	Andhra Pradesh	131,660	4.62	Fuels (Power & Oil Refining)	40.70	19.42
				Electrical Equipment #	19.82	
				Metallurgical Industries	7.66	
				Drugs & Pharmaceuticals	7.64	
				Paper and Pulp Product	4.77	
7	Madhya Pradesh	99,040	3.48	Fuels (Power & Oil Refining)	68.91	6.64
				Metallurgical Industries	15.47	
				Textiles (incl. Dyed, Printed)	5.16	
				Electrical Equipment #	2.05	
				Photographic Raw File	1.77	
8	West Bengal	89,350	3.14	Fuels (Power & Oil Refining)	39.54	19.76
				Chemicals (Other Than Fertilisers)	24.72	
				Electrical Equipment #	8.02	
				Hotel & Tourism	4.11	
				Telecommunications	3.85	
9	Orissa	82,290	2.89	Fuels (Power & Oil Refining)	69.19	1.45
				Metallurgical Industries	25.12	
				Transportation Industry	3.01	
				Hotel & Tourism	1.03	
				Services Sector	0.20	
10	Uttar Pradesh	49,260	1.73	Transportation Industry	37.24	21.09
				Fuels (Power & Oil Refining)	23.63	
				Electrical Equipment #	9.62	
				Chemicals (Other than Fertilisers)	4.54	
				Food Processing Industries	3.88	
11	Haryana	36,120	1.27	Fuels (Power & Oil Refining)	29.73	35.51
				Electrical Equipment #	15.33	
				Transportation Industry	8.21	
				Paper & Pulp including Paper Products	6.77	
				Food Processing Industries	4.45	
12	Rajasthan	30,050	1.06	Fuels (Power & Oil Refining)	45.07	17.26
				Electrical Equipment #	20.89	
				Chemicals (Other than Fertilisers)	8.28	
				Industrial Machinery	4.42	
				Metallurgical Industries	4.08	
13	Punjab	19,680	0.69	Textiles (incl. Dyed, Printed)	36.82	10.81

	State	Approved Amount (Rs. million)	Share in All-India Total	Top Five Sectors and their Share in the State's Total		Remaining Sectors' Share (%)
				Sector	Share (%)	
	(1)	(2)	(3)	(4)	(5)	(6)
				Paper & Pulp incl. Paper Products	22.23	
				Chemicals (Other than Fertilisers)	19.74	
				Telecommunications	5.90	
				Drugs & Pharmaceuticals	4.50	
14	Kerala	15,300	0.54	Fuels (Power & Oil Refining)	54.98	17.51
				Hotel & Tourism	9.53	
				Electrical Equipment #	6.72	
				Transportation Industry	6.02	
				Food Processing Industries	5.25	
15	Pondicherry	12,420	0.44	Fuels (Power & Oil Refining)	79.35	1.32
				Chemicals (Other than Fertilisers)	14.96	
				Electrical Equipment #	2.88	
				Ceramics	1.01	
				Food Processing Industries	0.48	
16	Himachal Pradesh	11,740	0.41	Telecommunications Products	69.07	4.31
				Hotel & Tourism	16.04	
				Food Processing Industries	6.75	
				Chemicals (Other than Fertilisers)	2.47	
				Fuels (Power & Oil Refining)	1.35	
	Total of the Above	2,068,620	72.66			
	All India	2,847,170	100.00	Fuels (Power & Oil Refining)	27.21	30.38
				Telecommunications	19.77	
				Electrical Equipment #	9.83	
				Transportation Industry	7.38	
				Metallurgical Industries	5.43	

Source: India, Ministry of Commerce & Industry, Secretariat for Industrial Assistance, SIA Newsletter: 2002, Annual Issue.

Including Computer Software.

In most states, the top two industries account for a majority of the approved investment. In case of Orissa, fuels and metallurgical industries account for as much as over 94 per cent of the investment. The state also had comparatively very small number of approvals. In the case of Madhya Pradesh, the two sectors had a share of 84 per cent. In case of West Bengal, the combined share of fuels and chemicals was once again high at 64 per cent. This reflects the narrow range of industries in which the concerned states could attract investment, and the success or failure of a couple of major projects would impact adversely on the state's share in FDI.

Industry-wise Distribution of FDI

Industrial policy changes, especially with regard to areas reserved for the public sector, led to a dramatic upsurge in approvals for new projects in power, oil and telecommunications. Forty five per cent of the FDI approved during August 1991 to August 2004 was proposed in these heavy investment sectors (Table 5). These two sectors are also the ones which suffered policy uncertainties and long delays in implementation and even abandonment. Locational factors influencing power plants will be different from those of other sectors. Telecommunications is a service and its operations are unlikely to be confined to the state in whose name the initial FDI approval was given. When the FDI approvals were given, in many cases the circles of operations were not decided. Even more importantly, the constituents of the sector underwent major transformations and in a number of cases the original foreign investors were substituted by newer ones. Also, due to takeovers, some of the operators now extend their operations to multiple states.[15] Incidentally, this sector witnessed major changes in ownership of enterprises and consequently the service areas of different players. Thus, it may not be appropriate to attribute telecommunication investments to any particular state or region. The food processing industry also witnessed major takeovers (e.g., Coca-Cola – Parle, Conagra – ITC Agro and Heinz – Glaxo Food Division). It does appear that new foreign investments in this industry are dominated by soft drink manufacturers. The nature of this industry is such that the bottling operations are carried out in various parts of the country irrespective of the location of a company's registered office. That is, investments in plant and machinery are spread across the country in different states, irrespective of whether they are developed or backward. Similar would be the case with fast food chains like McDonald's, KFC and Pizza Hut as these are service enterprises. These chains are more likely to target the metropolitan cities to start with. Their operations are bound to be spread across states unlike manufacturing ventures, which are location specific. One can also see that many companies in industrial and medical gases have their units in different parts of the country. Assigning their investment to a single state would, therefore, amount to taking a very limited view.

[15] For instance, the original foreign investor in Bharti Tele-Ventures namely, STET gave way to Singapore Telecom in 2000. Recently, Vodafone made an entry into the company. Bharti Tele-Ventures acquired effective stakes in JT Mobiles (cellular services provider in Karnataka and Andhra Pradesh circles), Skycell Communications (cellular services provider in Chennai) and Spice Cell (cellular services provider in Kolkata). The group now provides GSM mobile services in all the 23 telecom circles in India, thus being the only telecom operator having an all-India presence.

Table 5
Sectoral Distribution of Approved FDI (August 1991 – August 2004)

Sector	*Amount Approved (Rs. Million)*	*Share in Total (%)*
(1)	*(2)*	*(4)*
Fuels (Power & Oil Refining)	697,470	28.16
Telecommunications	413,680	16.70
Transport Equipment	207,670	8.39
Electrical Equipment (Including Software & Electronics)	187,260	7.56
Services Sector	165,820	6.70
Metallurgical Industries	154,050	6.22
Chemicals (Other than Fertilisers)	117,130	4.73
Food Processing Industries	95,460	3.85
Hotel & Tourism	49,080	1.98
Trading	32,680	1.32
Paper & Pulp Including Paper Products	31,130	1.26
Textiles (Including Dyed, Printed)	29,370	1.19
Drugs & Pharmaceuticals	27,530	1.11
Glass and Glass Products	25,220	1.02
Consultancy Services	24,530	0.99
Cement & Gypsum Products	19,570	0.79
Miscellaneous Mechanical & Engineering	18,610	0.75
Others, including Miscellaneous	180,370	7.28
Total	2,476,640	100.00

Source: Based on *SIA Newsletter*, September 2004.

We now turn to the major recipients of FDI approvals in different industries/sectors. This exercise is once again limited to the approvals given during August 1991 to December 2002. Gujarat, Tamil Nadu and Maharashtra have the largest shares in power and fuels (Table 6). While in the case of Maharashtra the major Enron project did go on stream and subsequently ran into troubles, Cogentrix had to exit from the Mangalore Power Co. (Karnataka) due to opposition from different quarters. Incidentally, in the case of telecommunications, Delhi accounts for as much as 35 per cent of the total approved investment. In view of its character and the developments described earlier, one should not attach much significance to these figures. Next in importance is the transport equipment industry, which showed preference for Maharashtra, Delhi, Uttar Pradesh and the two southern states of Karnataka and Tamil Nadu. Delhi could only be providing the registered office addresses for companies in neighbouring Uttar Pradesh and Haryana. Interestingly, in case of Uttar Pradesh, DCM-Toyota was taken over by Daewoo of South Korea and SRF Nippondenso (now Denso India) was turned into a subsidiary by the foreign collaborator after buying out the Indian partner. Foreign collaborators increased their stakes substantially in Maruti Udyog, Sona Steering and GKN Driveline. Incidentally, the former two have their registered offices in Delhi. Thus equity hikes and takeovers are probably major factors in explaining the relative high position enjoyed by the three states in this industry.

Table 6
Shares of Top 5 states in FDI Approvals for Different Sectors: 1991-2002

Industry/Sector	*Approved Amount (Rs. Million)*	*Share in All-India Total*	*Top Five States and their Share in the Sector's Total*		*Remaining States' Share (%)*
			Sector	*Share (%)*	
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Fuels (Power & Oil Refining)	774,720	27.21	Gujarat	13.21	45.46
			Tamil Nadu	12.71	
			Maharashtra	10.59	
			Karnataka	9.22	
			Madhya Pradesh	8.81	
Telecommunications	562,790	19.77	Delhi	35.12	43.68
			Maharashtra	15.12	
			Tamil Nadu	2.68	
			Gujarat	1.95	
			Himachal Pradesh	1.44	
Electrical Equipments (including Electronics and Computer Software)	279,780	9.83	Karnataka	19.06	40.95
			Maharashtra	15.82	
			Delhi	10.21	
			Andhra Pradesh	9.33	
			Tamil Nadu	4.63	
Transportation Industry	210,120	7.38	Maharashtra	33.03	21.56
			Delhi	11.04	
			Karnataka	11.04	
			Uttar Pradesh	8.73	
			Tamil Nadu	8.39	
Services Sector	184,350	6.47	Maharashtra	36.85	27.33
			Karnataka	13.70	
			Delhi	13.09	
			Tamil Nadu	7.77	
			West Bengal	1.26	
Metallurgical Industries	154,560	5.43	Maharashtra	14.46	49.00
			Orissa	13.37	
			Madhya Pradesh	9.92	
			Karnataka	6.73	
			Andhra Pradesh	6.52	
Chemicals (Other than Fertilisers)	129,600	4.56	West Bengal	17.04	46.21
			Maharashtra	15.90	
			Gujarat	11.17	
			Tamil Nadu	5.48	
			Andhra Pradesh	4.17	
Food Processing Industries	94,760	3.33	Delhi	10.66	67.69
			Maharashtra	8.30	
			Tamil Nadu	6.42	
			Karnataka	3.82	
			Gujarat	3.10	
Paper and Pulp (including Paper Products)	35,260	1.24	Maharashtra	37.14	22.36
			Andhra Pradesh	17.81	
			Punjab	12.41	
			Haryana	6.94	

			Delhi	3.34	
Textiles (incl. Dyed, Printed)	34,710	1.22	Punjab	20.88	35.81
			Madhya Pradesh	14.73	
			Maharashtra	12.62	
			Tamil Nadu	8.36	
			Gujarat	7.59	
Drugs & Pharmaceuticals	30,040	1.10	Andhra Pradesh	33.46	26.67
			Maharashtra	20.27	
			Karnataka	7.62	
			Delhi	6.79	
			Tamil Nadu	5.18	
Total of the above	2,490,690	87.54			

Source: India, Ministry of Commerce & Industry, Secretariat for Industrial Assistance, SIA Newsletter: *2002*, Annual Issue.

The state and sectoral distribution of approved FDI indicates the state's desire to improve availability of power and foreign investors understanding of the state's resource endowment and industrial base. It also suggests the considerable influence of takeovers and equity hikes by existing foreign investors in determining the 'location' of FDI in a state. In case of telecommunications, the second largest recipient, however, it may be inappropriate to associate investments to any particular state.

Actual Inflows

Data on state-wise actual inflows, separately for greenfield and old ventures, could have provided a better indicator of the states' relative attractiveness. This information is, however, not available. RBI, of late, is giving data on inflows based on information from its regional offices where inflows information is reported by the investors. The information may not be of much relevance because according to it, during January 2000 to February 2005 Delhi and Maharashtra accounted for half of the total inflows (excluding some categories like acquisition of shares and RBI's NRI schemes).

Though there are differences in the manner in which approvals and actual inflows are being reported, it does appear that there are sharp differences between the two not only in the amounts but also in terms of sectoral distribution (Table 7). Fuels, which accounted for 28 per cent of the total approvals, constitute a little less than 10 per cent of the actual inflows. The share of metallurgical industries is also far lower in inflows compared with its share in approvals. On the other hand, electrical equipment, of which computer software is the dominant component, doubled its share from 7.56 per cent to 15.51 per cent. With the inflows accounting for about half of the approvals, it would be difficult to comment upon the performance of individual states in translating the approvals into investments. The relative poor performance of fuels and metallurgical industries implies that states like Orissa and Madhya Pradesh may have attracted very little actual FDI. The poor realisation, however, may not be entirely due to weaknesses of the respective states.

Table 7
Sectoral Pattern of FDI Approvals and Inflows

Name of the Sector	*Amount (Rs. Million)*		*Share in Total (%)*	
	Approved	*Inflow*	*Approved*	*Inflow*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
Fuels (Power & Oil Refinery)	697,470	105,610	28.16	9.52
Telecommunications	413,680	113,130	16.70	10.20
Transportation Industry	207,670	123,320	8.39	11.11
Electrical Equipment (Incl. S/W & Elec.)	187,260	172,100	7.56	15.51
Service Sector	165,820	102,390	6.70	9.23
Metallurgical Industries	154,050	21,350	6.22	1.92
Chemicals (Other Than Fertilisers)	117,130	66,010	4.73	5.95
Food Processing Industries	95,460	45,190	3.85	4.07
Hotel & Tourism	49,080	10,680	1.98	0.96
Trading	32,680	13,730	1.32	1.24
Paper & Pulp Including Paper Products	31,130	12,820	1.26	1.16
Textiles (Incl. Dyed, Printed)	29,370	13,600	1.19	1.23
Drugs And Pharmaceuticals	27,530	35,520	1.11	3.20
Glass	25,220	10,270	1.02	0.93
Consultancy Services	24,530	18,920	0.99	1.71
Cement And Gypsum Products	19,570	12,610	0.79	1.14
Miscellaneous Mechanical & Engineering	18,610	17,060	0.75	1.54
Others incl. Miscellaneous	180,370	215,350	7.28	19.41
Total	2,476,640	1,109,680	100.00	100.00
Acquisition of Shares		72,780		
Advance of Inflow		98,690		
Stock Swapped		2,570		
NRI-RBI Schemes		84,170		
Grand Total		1,367,980		

Source: Based on data provided in SIA Newsletters.
Note: (1) ADR/GDR amounts are excluded from the approval data.
(2) Approvals and inflows are not strictly comparable because during recent years inflows also include reinvested earnings. On the other hand, approvals include acquisition of shares which are reported separately in case of inflows without assigning them to any industry. It may be noted that in case of drugs and pharmaceuticals inflows are larger than approvals.

Apart from the policy-related problems experienced by the two major sectors namely, power and telecommunications, the low level of realisation could also be due to non-implementation of a few large projects. They can most probably be treated as abandoned.

A few important ones of this nature are: Parmar's Refinery project in Gujarat;[16] Hinduja's proposal for East Coast Refinery in Orissa; Indian Oil-Kuwait Petroleum joint venture in Orissa; Swraj Paul's (Caparo) plans to set up the Kalinga steel plant in Orissa; Bezeq's large joint venture proposal with Himachal

Futuristic in Himachal Pradesh; BMW proposals with Escorts and Hero group for motorcycle manufacture in the north; Hinduja's power project in Andhra Pradesh and Metdist's (Bagri) proposals for setting up a copper smelter and refinery in Madhya Pradesh. One is also not sure whether Itochu of Japan has invested and retained its proposed investment in Reliance's refinery project in Gujarat. Similar is the case with its proposed investment in the erstwhile Reliance Polyethylene and Reliance Polypropylene for both of which approval data show Surat as the location. Such failures can prove to be substantial for some states and sectors. Given the ambiguity surrounding a few major proposals it is likely that much of the proposed FDI in Gujarat, a state known for its good investment climate, may not have materialised and the state may be standing quite low in the overall rankings in terms of inflows. In case of Himachal Pradesh, there are indications that important FDI projects either did not materialise or were scaled down drastically. Since in a few of these cases the very intention of getting the approval is suspect and the ability of foreign investors to bring in the proposed funds is doubtful, such proposals should not be counted even to indicate a state's attractiveness to FDI.

Case Study of the Automobile Industry

The automobile industry offers a relevant example for understanding the various factors affecting the location of new FDI projects. Towards this end, we have examined the location of plants of members of the Society of Indian Automobile Manufacturers (SIAM) who received approvals for FDI during the post-liberalisation period (Table 8). It can be seen that for Ashok Leyland, Maruti Udyog and LML it was additional infusion of capital whereas in case of Daewoo Motors it involved takeover and consolidation. In case of Tata Cummins, Escorts Yamaha, General Motors, Mercedes Benz, Pal-Peugot, and Toyota Kirloskar it was either takeover of an existing plant or proximity to Indian collaborators' production facilities. In the case of Honda Siel, Shrirams, the Indian partners, are based in the north and Honda's other joint venture with Shrirams has a

[16] The state government is reported to have cancelled the land allotted to the project because of the suspicion that the foreign collaborator may not have the means to implement the project. This was incidentally one of the high investment projects with the foreign promoter's contribution placed at Rs. 6,000 million (See for instance: Goyal et. al., 1995).

plant in Uttar Pradesh. Honda's joint venture with the Hero group (Hero Honda) is in the neighbouring Haryana. More recently, Honda has set up its scooter manufacturing plant in Haryana. Ford, which initially selected Maharashtra due to its association with the Mahindras, who have their main base in the state, subsequently set up its second plant in Tamil Nadu.

Table 8
Select Cases Automobile Companies which received FDI Approvals during the Post-liberalisation Period

Name of the Company	*Item(s) of Manufacture*	*Location of Plant*	*State*	*Remarks*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
A. Existing Companies/Plants				
Ashok Leyland Ltd	Light, Medium & Heavy Commercial Vehicles	Tamil Nadu, Rajasthan, Maharashtra & A.P.	Tamil Nadu (Mainly)	Existing company. Additional foreign equity infusion
Daewoo Motors India Ltd	Passenger Cars, LCVs	Surajpur Indl Area	Uttar Pradesh	An existing joint venture manufacturing LCVs with Toyota was taken over by Daewoo
Escorts Yamaha Motor Ltd	Motor Cycles & Mopeds	Surajpur Indl Area & Faridabad	U.P. & Haryana	Took over the operations from the Indian partner Escorts Ltd
Fiat India Automobiles Pvt Ltd	Passenger Cars	Mumbai	Maharashtra	Fiat, Italy has formed a joint venture with Premier Auto by taking over the latters' Kurla unit.
General Motors India Ltd	Passenger Cars	Halol	Gujarat	Took over the plant from the Indian partner Hindustan Motors Ltd
LML Ltd	Scooters	Kanpur	Uttar Pradesh	Existing Company. Fresh equity by foreign partner
Maruti Udyog Ltd	Passenger Cars & Light Duty Utility Vehicles	Gurgaon	Haryana	Existing Company. Fresh investment by the Foreign Collaborator
Pal-Peugot Ltd	Passenger Cars	Dombivli, Dist. Thane	Maharashtra	The plant was takenover from the Indian partner Premier Automobiles
B. New Ventures including those having JV Partners				
Ford India Ltd	Passenger Cars	Maramalai Nagar, Chingelput Dist.	Tamil Nadu	Following the exit of the Indian partner Mahindra from the Venture, the operations in Maharashtra ceased
Hyundai Motors India Ltd	Passenger Cars	Kancheepuram Dist.	Tamil Nadu	Independent Venture.
Volvo India Pvt Ltd	Heavy Comm-ercial Trucks	Hoskote Tq, Bangalore	Karnataka	New Independent Venture

Name of the Company	*Item(s) of Manufacture*	*Location of Plant*	*State*	*Remarks*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
Honda Motorcycle & Scooter India Pvt Ltd	Scooters	Manesar Dist. Gurgaon	Haryana	Hero-Honda, Honda's joint venture, has plants in Gurgaon and Dharuhera, Haryana.
Honda Siel Cars India Ltd	Passenger Cars	Greater NOIDA	Uttar Pradesh	Honda's other venture with Shrirams has a plant in UP
Mercedes Benz India Ltd	Passenger cars	Pimpri, Pune	Maharashtra	Indian partner TELCO has operations in Pimpri
Tata Cummins Ltd	Diesel Engines & Components	Telco Township, Jamshedpur	Bihar	New JV with Telco
Toyota Kirloskar Motors Ltd	Passenger Cars	Ramnagar Tq, Bangalore Rural Dist.	Karnataka	Kirloskars, the Indian Partners, have operations in Karnataka incl. Bangalore
Source: Author's own compilation based on FDI approval data.				

In case of increase in equity and takeover of plants, there are obviously no additional locational factors involved. Proximity to joint venture partners is one important consideration which could influence location. The new and unassociated entrants are Hyundai Motor and Volvo. The former preferred Tamil Nadu and the latter opted for Karnataka. Industry professionals are of the opinion that the choice of Tamil Nadu by Ford and Hyundai is due to better facilities offered by the state in terms of a tax holiday and prompt state government support in allotment of land, etc. The relevance of incentives and facilities in influencing FDI projects, however, needs to be further ascertained. For instance, a Korean scholar opined that docile labour could have been a contributing factor for Hyundai's locating its plant in south India.[17]

State-Wise Distribution of Large FDI Companies

It was indicated earlier that FDI could be accounting for a substantial part of the capital formation in the Indian private corporate sector. It was also indicated that the real preferences of foreign investors would emerge from a study of new ventures, especially manufacturing ones. To examine the relative importance of FDI in India's private corporate sector, in particular in large greenfield manufacturing ventures, we have made an attempt at identifying FDI companies among the largest Indian non-banking joint

[17] Jongsoo Park, in a lecture delivered by him at the Institute for Studies in Industrial Development on 17 February 2005.

stock companies for the year 2000-01, based on the First Source corporate database.[18] Out of about 215,550 companies we have identified 1,336 companies with assets of at least Rs. 2,000 million, which accounted for 81 per cent of the total assets of the companies covered.[19] Out of the 1,336, 262 were either government companies or those promoted mainly by the public sector banks and public financial institutions. The remaining 1,074 companies have been classified into domestic and FDI companies.[20] These companies accounted for nearly 70 per cent of the assets of non-banking private sector companies in India during the year. Out of these, 325 were identified as FDI companies having a minimum of 10 per cent foreign equity at the end of 2000-01.[21] The 325 FDI companies accounted for nearly one-fourth of the assets of the largest private sector companies in 2000-01. The companies have been further classified according to the year of incorporation. All those which were incorporated after the middle of 1991 (excluding the ones formed by taking over some already existing operations) have been classified as greenfield ventures.

It is evident from Table 9 that the top three states accounted for more than three-fourths of the total assets of new FDI ventures. While precise estimates are not available, Maharashtra was host for many large FDI companies even in the earlier regime. Gujarat's

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[18] This database was generated by the Centre for Monitoring Indian Economy (CMIE) in association with the Department of Company Affairs, Government of India.

[19] To the best of our knowledge, this is by far the largest data set on the Indian corporate sector. While the database contains data for 2000-01, 2001-02 and 2002-03 also, the coverage in terms of providing financial data was the largest for 2000-01. Hence it was decided to base the exercise on 2000-01. It cannot, however, be claimed that the coverage of the database is complete.

[20] We have broadly gone by the now widely followed 10 per cent foreign investment criteria. In case the investment was distributed among more than one investor and there is reason to believe that such investors are related, we have treated it as an FDI case and otherwise it was treated as a domestic one. A few companies changed their character from domestic to FDI and vice versa. To the extent possible, our classification was based on the position existing at the end of March 2001. Given the difficulty in getting the ownership data of unlisted companies, it is possible that our estimates err on the lower side.

[21] This was also partly necessitated because, the year of incorporation turned out to be unreliable for analytical purposes as it was being changed whenever a company transferred its registered office from one state to another or it was converted from public limited to private limited or vice versa. In case of multi-plant operations, the initial and important locations were chosen. Except for those having registered offices in Delhi, for the remaining ones, it was assumed that the main project would be located in the respective state.

8.65 per cent share can hardly justify its leading position in the economy. Having received very few new large FDI ventures, West Bengal has turned out to be another major exception. As can be seen from Table 10, which gives the state-wise distribution of FDI projects for the leading sectors, namely (i) Energy, (ii) Telecommunications, (iii) Manufacturing and (iv) Computer Software and Allied activities, the share of the manufacturing sector is quite low in terms of total assets of new FDI ventures.

Table 9

State-wise Distribution of Assets of Large FDI Companies in the Private Sector: 2000-01

(Rs. Million)

State	*Greenfield FDI Ventures*			*Other FDI Ventures*			*Total*		
	No.	*Assets*	*Share in Total Assets (%)*	*No.*	*Assets*	*Share in Total Assets*	*No.*	*Assets*	*Share in Total Assets (%)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Maharashtra	44	388,580	41.21	89	496,360	32.76	133	884,940	36.00
Delhi	26	214,620	22.76	5	18,260	1.20	31	232,880	9.47
Tamil Nadu	17	124,820	13.24	20	115,350	7.61	37	240,170	9.77
Gujarat	5	81,570	8.65	12	125,500	8.28	17	207,070	8.42
Karnataka	7	39,540	4.19	11	88,800	5.86	18	128,350	5.22
West Bengal	4	27,460	2.91	20	302,020	19.93	24	329,480	13.40
Uttar Pradesh	6	23,860	2.53	8	76,840	5.07	14	100,710	4.10
Andhra Pradesh	2	15,540	1.65	10	50,880	3.36	12	66,420	2.70
Haryana	4	10,520	1.12	11	117,210	7.73	15	127,730	5.20
Madhya Pradesh	1	3,960	0.42	3	33,780	2.23	4	37,740	1.54
Others	4	12,450	1.32	16	90,330	5.96	20	102,780	4.18
Grand Total	120	942,940	100.00	205	1,515,330	100.00	325	2,458,260	100.00

Source: Authors' estimates based on the First Source database of CMIE.

The prominent locations for new manufacturing FDI projects happen to be Maharashtra and Tamil Nadu. The relatively better position enjoyed by Haryana and Uttar Pradesh is due to the already established industrial base in the neighbouring districts of Delhi. Gujarat is a notable exception having no large FDI manufacturing venture that has come to the state independently. As explained earlier, not much can be read into the state's share in telecommunications. Andhra Pradesh is represented by only one large FDI company, which is located in the Visakhapatnam Export Processing Zone. Indications are that the Indian collaborator of the venture belongs to the state. The sole such venture in Madhya Pradesh appears to have got established there because of proximity to the Indian partner's operations in the state. Incidentally, the foreign partner's stake has since been bought over by the Indian promoter group. It is thus clear that new large manufacturing FDI tended to choose only very few developed states and its presence in many others was a result of other compelling factors like development in the pre-liberalisation period and the influence of Indian partners. Thus it appears that left to itself manufacturing FDI would not go to the relatively backward states except in case of extractive and those based on natural resources.

Table 10
State- and Major Sector- wise Distribution of Assets of new Large FDI Companies: 2000-01

(Rs. Million)

State/UT	*Energy*		*Telecommunications*		*Manufacturing*		*Financial Sector*		*Computer Software and Allied Activities*	
	No.	*Assets*	*No.*	*Assets*	*No.*	*Assets*	*No.*	*Assets*	*No.*	*Assets*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*10)*	*(11)*
Andhra Pradesh	1	13,430			1	2,110				
Daman & Diu	1	2,380								
Delhi	1	2,450	11	90,410	1	3,070	8	92,050	2	4,850
Gujarat	1	26,700	2	45,080						
Haryana					4	10,520				
Himachal Pradesh	1	2,510								
Karnataka	1	8,830			1	8,740			4	15,380
Madhya Pradesh					1	3,960				
Maharashtra	3	135,590	3	39,680	14	69,350	17	83,510	1	12,510
Orissa	1	3,920								
Punjab					1	3,640				
Tamil Nadu	5	32,010	3	23,050	7	62,970	1	3,960	1	2,830
Uttar Pradesh					4	16,930	1	2,820		
West Bengal			1	3,470	1	18,020	1	3,410		
Total	**15**	**227,820**	**20**	**201,690**	**35**	**199,320**	**28**	**185,750**	**8**	**35,570**
Share in Total (%)	12.50	24.16	16.67	21.39	29.17	21.14	23.33	19.70	6.67	3.77

Source: See Table 9.

Summing Up

In the new era when the emphasis is on attracting large amounts of foreign investment, approvals for foreign direct investments marked a significant rise. A bulk of the investment approved is for infrastructure sectors, especially fuels and telecommunications. With such high shares of infrastructure, efforts to relate total approved investment with a state's characteristics such as level of industrialisation, infrastructure development and recent growth trends may not be appropriate. A variety of factors seem to be at play for different sectors. Each of the observations cited at the beginning of this paper appear to be relevant, some of them probably in a different context. For instance, to the extent the choice of a state is influenced by takeovers, equity hikes and existing ventures of the foreign investor, the expectation that FDI is attracted to the initial level of manufacture comes true. The state-wise pattern of FDI approvals for some of the sectors appears to be related to the importance of that sector for the state or the state's resource endowment. This conclusion, however, cannot be extended beyond a point. A look at individual cases suggests that this was due both to the takeover and consolidation of control that is going on apart from setting up of new projects.

It may be said that states in the western and southern regions attracted much of the approved FDI. Simultaneously it cannot be denied that the relatively backward states could not attract much FDI both in absolute and relative terms. In fact, it does appear that progressively, some of the backward states are losing their limited initial appeal. Even if some of the backward states attracted investment proposals based on their natural resources and their desire to improve infrastructure, in actual practice it appears that the realisation may have been quite low due to the non-materialisation of approved projects. This may, however, not be entirely due to the states' failure to offer necessary support. In general, large investments by NRIs failed to materialise either because they had put up undue demands on the Indian collaborators/financial institutions or because they did not possess the promised resources. A significant part of the FDI being in the services sector, the direct benefits from the investments may not be confined to the state to which the investment is officially credited. The telecommunications sector is a prime example in this regard. Assigning their investment to a single state would, therefore, amount to taking a very limited view.

Although not discussed above, the growing tendency of foreign investors to set up holding companies, which would engage in further investments, is likely to diminish the importance of the state that received the initial investment. These factors leave the issue of location of FDI projects and their contribution to a state's economy wide open. The official approval data offers only a limited picture. With the gradual improvement in the availability of data on foreign investments one could hope to analyse the issue in a more reliable manner.

The case study of the automobile industry suggests that barring equity hikes, takeovers and proximity to existing ventures of the same foreign investors, there is a distinct preference for the southern states of Tamil Nadu and Karnataka. Our exercise suggests that the role of the former factors is not insignificant, especially in manufacturing. The study of the location pattern of new independent ventures suggests that these are heavily concentrated in Maharashtra, Delhi and its neighbourhood and Tamil Nadu. That is, left to itself manufacturing FDI would not go to the relatively backward states except in case of extractive activities and those based on natural resources. The recent announcements of a major project in Orissa by a South Korean company and another one in Jharkhand by an NRI business group, each involving about $10 billion foreign investment are essentially aimed at exploiting natural resources. Once these materialise, the two states' would reach top positions in overall FDI inflows. The main issue for them, however, would be whether the projects would promote strong linkages within the respective state's economies. Further, to be able to assess the contribution of an investment, one needs to know the incentive package offered to it by the state.

Overall, it does appear that, in line with experience elsewhere, FDI has shown a preference for developed states. Also, the role of FDI seems to be not so insignificant, especially in the large private corporate sector. The two factors combined may accentuate the differences between the developed and backward states. The backward states may neither be in a position to offer the incentives to offset disadvantages and even if they do, the net benefit for their economies is not guaranteed. States have to improve the overall investment climate to be able to attract investment, whether domestic or foreign. The private sector would not always be forthcoming to meet this basic requirement. The role of public investment is thus obvious:

> … although attracting FDI can be an important element of a regional development strategy, the key to successful development will ultimately be sound domestic macroeconomic and structural policies, adequate and efficient domestic savings and investment and human capital accumulation, supported by sound and strong domestic institutions. FDI is not a substitute for getting domestic policies "right". Appropriate domestic policies will help attract FDI and maximise its benefit, while at the same time removing obstacles to local business (Ögütçü, 2002).[22]

Targeting FDI, or expecting it to deliver the goods on its own, may thus not always be the right choice for the states. This is more so because, crowding in effects of FDI on domestic investment are not always guaranteed.[23] Further, with performance requirements no longer significant and mergers and acquisitions (M&As) playing a major role in FDI flows, the need for looking at the disaggregated picture to understand the contribution of FDI to regional development becomes quite obvious.

22 Also see Goyal, *et. al.*, 1994.

23 See for instance: Agosin and Mayer, 2000.

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