

CHAPTER-IV

PROFILE OF FDI AND AUTOMOTIVE SECTOR IN INDIA

4.1 INTRODUCTION :

After having reviewed the prevailing policy environment related to FDI in India, in the present chapter an attempt has been made to present the profile and trends of FDI inflows in general and automotive industry in particular. The policies discussed earlier in fact provide the background against which the inflows of foreign direct investment in India can be analyzed. Further a profile of the automotive sector is also presented in the present chapter.

This will be done in two parts. In the first part, profile of Foreign Direct Investment in India in general is presented which includes phase wise trends and patterns of FDI inflows in India, state-wise, country wise (source), and sector-wise inflows of FDI in India since 1991. In the second part, profile of automotive industry in India is presented which includes key elements of automotive industry, areas of investment in automotive industry or franchise, FDI inflows in automotive industry in India, Growth prospects of automotive industry in India. In the last section conclusion is presented.

The pro FDI policy of the government that has been elaborated in the previous chapter provides a thrust to FDI flows in the country. FDI enjoys high priority in the list of government strategy of development. The relative importance of debt creating inflows comprising of external assistance, external commercial borrowings, short term credit, and non resident Indians deposits has declined over the past three decades¹. India started as a humble global FDI player. Today it has culminated into world's thirteenth largest host country for FDI. The continuous comprehensive FDI policy reforms and the growing GDP, domestic

¹ Chanchal Chopra ,2003 - Statistical profile and analysis of the Foreign Investment in India Trends and patterns of foreign investment inflows in India.

demand, competitive labour force and factor market are the other main growth drivers of foreign direct investment in India. Most of the countries particularly developing countries are competing with each other today, to attract foreign capital to supplement and enhance their domestic rate of investment, acquire new technology and managerial skills. These economies are leaving no stone unturned to attract the foreign investors by easing terms of repatriation of profits, tax concessions and other incentives. Foreign investments have their share of negative effects as well. This calls for caution on the part of the government in developing countries to decide carefully the terms and conditions, pertaining to sectoral caps, repatriation of profits and tax concessions. The government in India made some radical changes from July 2013 to September 2013, in order to make the policies related to telecom, civil aviation, insurance more transparent. The Ministry of Finance had suggested modifications in FDI caps for various sectors, including tea, media, natural gas and petroleum. FDI norms were further amended and liberalized in January 2014. It is in this context that in the next section the trend in FDI flows has been discussed.

I

4.2 TRENDS IN FDI INFLOWS IN INDIA:

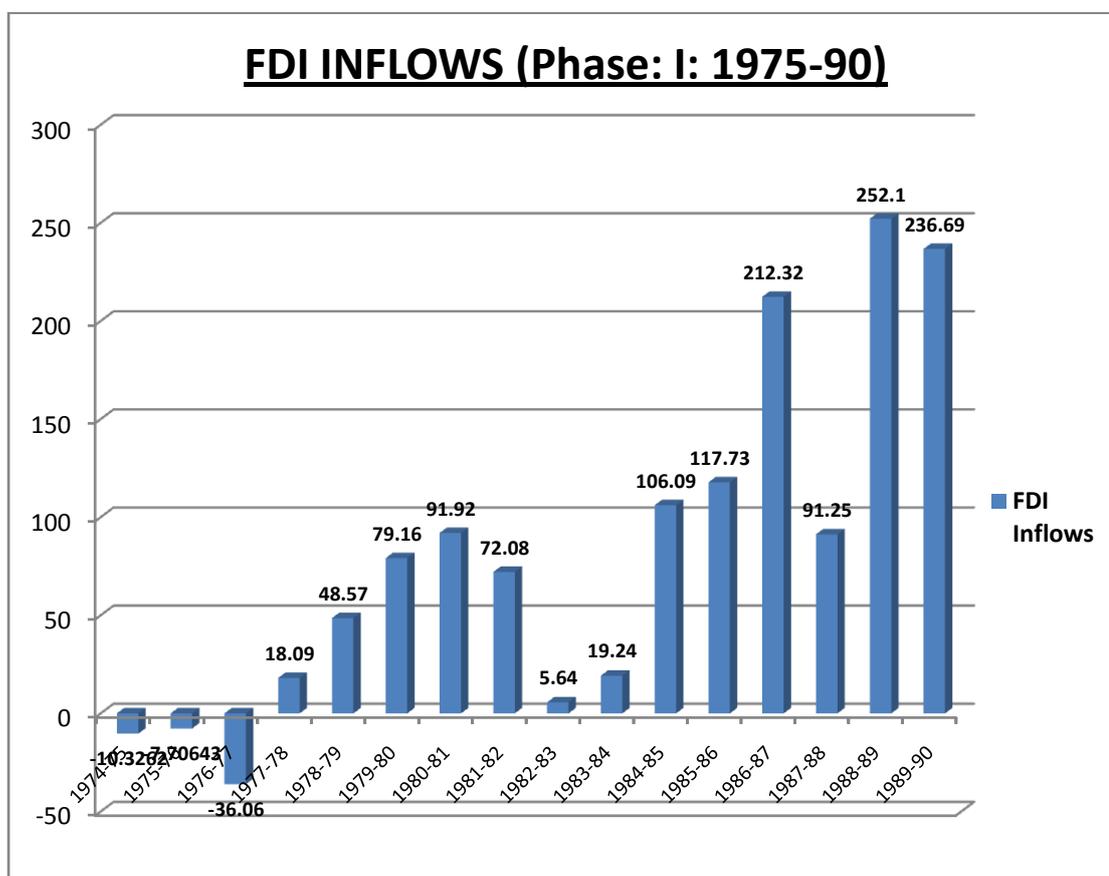
The volume and sources of sources of foreign capital in India have undergone a marked shift in the last three decades. The trends of FDI inflows in India can be divided in two phases. The first phase is known as pre reforms period (1991) when MRTP Act and FERA came into force. The second phase started from 1991 till date is also categorized as post reforms period. The post reform phase actually changed the entire landscape of FDI in India. This phase which welcomed FDI by liberalizing FDI policies to attract MNCs in India allowed FDI in different modes and through different channels (automatic and government route). The policies were amended considering the different levels of importance and priority of the sectors/areas into which they are entering. The following table shows FDI inflows during prereforms period.

TABLE: 4.1-FDI INFLOWS (Phase: I: 1975-90) (Amount in million US \$)

Year	FDI Inflows
1975	-10.3262
1976	-7.70643
1977	-36.06
1978	18.09
1979	48.57
1980	79.16
1981	91.92
1982	72.08
1983	5.64
1984	19.24
1985	106.09
1986	117.73
1987	212.32
1988	91.25
1989	252.1
1990	236.69

Source: Compiled and computed from World Development Report Database- 2014

Graph – 1 : FDI INFLOWS (Phase: I: 1975-90)



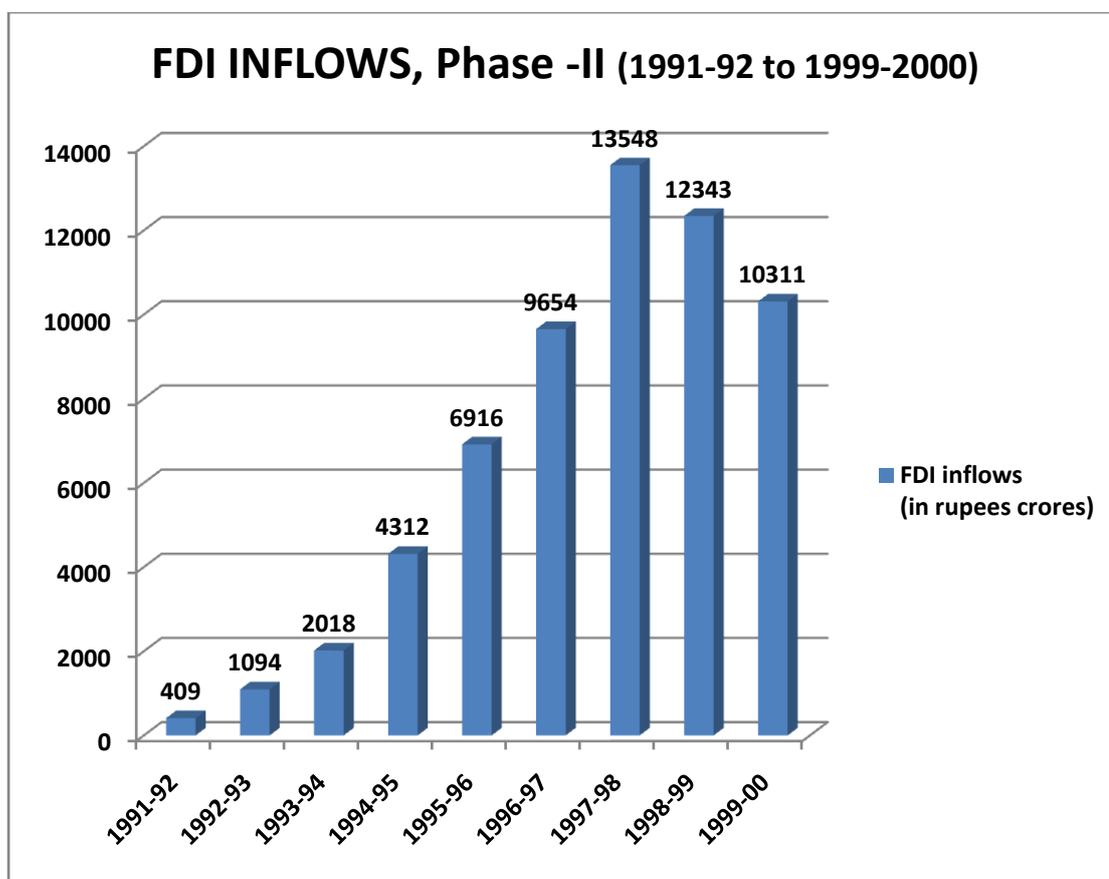
As it is evident from table no.1, the inflows of FDI, in the years 1975 and 1976, were less than the outflows from India. This is shown by negative net inflows which amount to US (-10.3) million \$. The negative inflows continued in the next year as well i.e. 1977. The amount of negative flows actually increased in this year. From 1978 till 1981 the inflows were a rising trend, the total amount showed an increasing trend although the growth rate didn't show much improvement. The year 1982 however witnessed a decline, followed by a much steeper decline in the year 1983 when the inflows came down to US 5 million \$ from US 72 million \$. The recovery was however very fast as in the year 1985 the inflows reached to US 105 million \$ from US 19.24 million \$ in the previous year, a growth rate of almost 451%. The inflows maintained its increasing trend till the year 1987 when it reached the level of US 252.32 million \$. It fell down in the year 1988 to US 91.25 million \$. In the year 1989 inflows improved and reached the level US 252.1 million \$ a growth rate of 176%. The next year i.e. 1990 however saw a negative growth rate of (-6.1 %). The restricted inflows which emerge as the main characteristics of the first phase could be attributed to the cautious and manipulative policies followed by the government of India during this phase. In the next table, data related to FDI inflows in the second phase has been provided.

TABLE: 4. 2: FDI INFLOWS, Phase -II (1991-92 to 1999-2000)

Years	FDI inflows (in rupees crores)
1991-92	409
1992-93	1094
1993-94	2018
1994-95	4312
1995-96	6916
1996-97	9654
1997-98	13548
1998-99	12343
1999-00	10311

Source: Compiled and computed from various issues of DIPP, FDI statistics various issues.

Graph – 2 : FDI INFLOWS, Phase -II (1991-92 to 1999-2000)



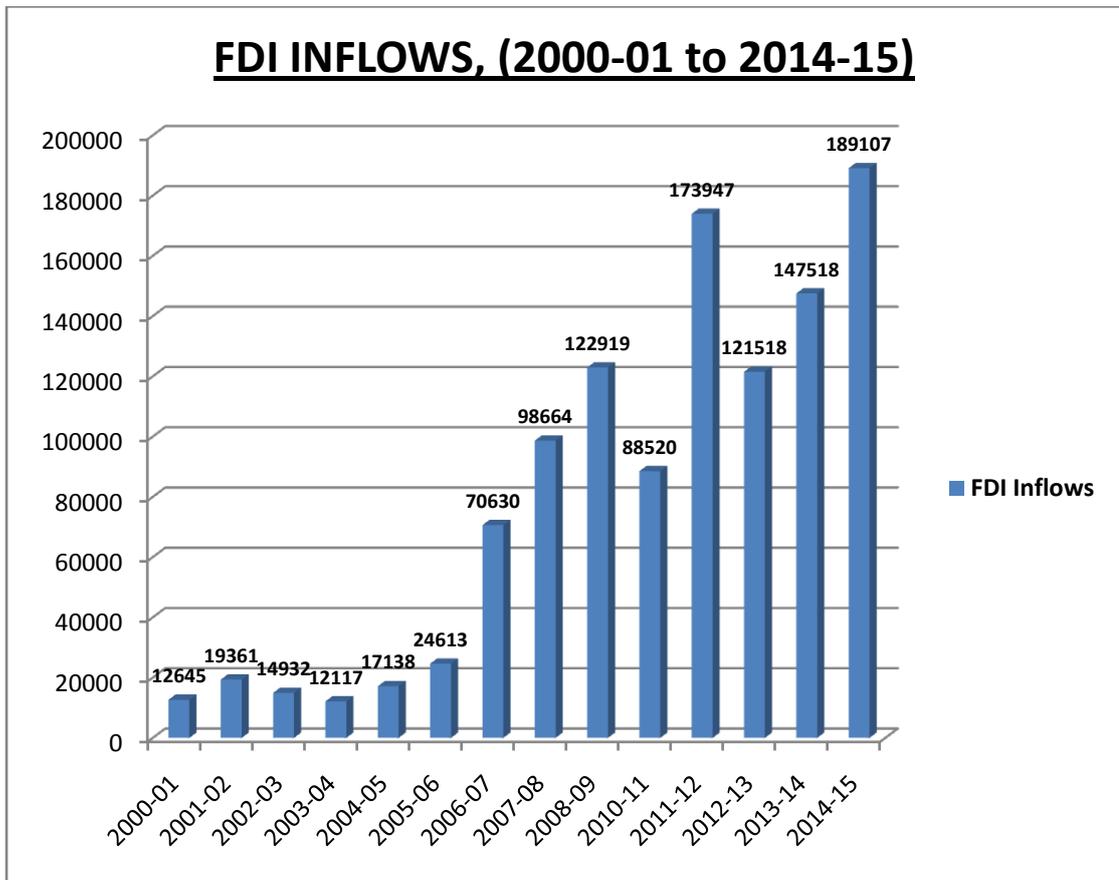
India has followed a cautious approach towards foreign capital for four decades after independence. Although after economic reforms in 1991, India liberalized its policies to attract FDI. The Table: 2.a. presents the initial years of second phase of FDI inflows in India when the country implemented a package of reforms and liberalized its FDI related policies to attract foreign investors. As shown in the Table: 2.a the inflows of FDI in the year 1991-92 was Rs 409 crores, it increased by 167% in the year 1992-93, the inflows in the year 1993-94 were Rs.2018 crores registering an increase of 84 %. Over the years the overall FDI inflows in India has no doubt increased but the trend of FDI inflows had been very uneven. In the year 1998-99 the FDI inflows registered a negative growth rate of (-8%), and the very next year (1999-00) the rate of negative growth doubled (-16.4 %). This drew the attention of the government to amend its policies further, and also to increase various sectoral caps.

TABLE: 4.3: FDI INFLOWS, Phase – II (2000-01 to 2014-15) (In Rs. crores)

Year	FDI Inflows
2000-01	12645
2001-02	19361
2002-03	14932
2003-04	12117
2004-05	17138
2005-06	24613
2006-07	70630
2007-08	98664
2008-09	122919
2010-11	88520
2011-12	173947
2012-13	121518
2013-14	147518
2014-15	189107

Compiled and computed from various issues of DIPP, FDI statistics various issues.

Graph – 2 : FDI INFLOWS, Phase – II (2000-01 to 2014-15)



The above table 2.b shows the FDI inflows in India after 2000. This period after 2000 marks the beginning of the new era in the history of FDI inflows. This phase has been extended till 2014-15. This phase is characterized by its more liberal and investor friendly policies. Also by this time India, as a destination or host country had attained a higher level. In the year 2001-02, FDI inflows recovered and attained a growth rate of 53% over the previous year (2000-01) before again dipping to a negative growth of -22.8%. In the year 2006-07 the FDI inflows reached the level of Rs 70630 crores registering the growth-rate of 186.9 % highest growth rate of all time till then. In the following years after 2006, FDI inflows were not very substantial. The FDI inflows remained rather subdued and uncertain; the reason for this was the global recession followed by uncertainty, which had engulfed most of the developed nations during the period from 2006-10 period. Some of the radical policy changes that took place in the last two- three years have reinforced the faith of foreign investors in Indian economy. The increased percentage sectoral caps and flexible profit repatriation and reinvestment policies of the GOI have further helped to attract more FDI inflows. The year 2014-15 saw the inflows of Rs. 189107 crores a growth rate of 28% over the previous year. Nevertheless the government is hopeful to improve the growth rate of FDI inflows in the coming years as a consequence of the positive measures it has adopted to make India a happening destination for foreign investors. In the next section FDI inflow in India from top ten countries has been presented.

4.3 COUNTRY WISE INFLOWS OF FDI:

This section gives a picture of top ten countries which invest in huge amount in India. The sources of FDI in the period of reforms have broadened in India. In 2008 there were 120 countries investing in India, whereas only 15 countries were investing in 1991. Thus the number of countries investing in India increased after reforms. After liberalization of economy Mauritius and Singapore, predominantly appeared on the list of major investors. Apart from these two countries U.S, U.K, Germany, Japan, Netherlands and, France are the major investors. These countries are not only the major investor now, but also during pre liberalization era also. The analysis presents the major investing countries in India at present. Mauritius is the largest investor in India. FDI inflows from Mauritius constitute about 35% of the total FDI in India and enjoy top position on India's FDI map since 1995. This dominance of Mauritius is because of the Double Taxation Avoidance Agreement between the two countries, which favour routing of investment through this country. This DTAA type of taxation treaty has been made with Singapore also.

TABLE: 4.4 : SHARE OF TOP INVESTING COUNTRIES FDI INFLOWS (FINANCIAL YEARS)**AMOUNT RUPEES IN CRORES (US\$ million)**

Ranks	Country	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Cumulative inflows (April'00-Mar'15)	% Age to Total FDI
1.	Mauritius	50,899 11,229	49,633 10,376	31,855 6987	46,710 9942	51654 9,497	29,360 4,859	13,592 2,283	425657 86,972	35%
2	Singapore	15,727 3,454	11,295 2,379	7,730 1,705	24,712 5,257	12,594 2,308	35,625 5,985	39,393 6,429	165200 31,874	13%
3.	U.K	3,840 864	3094 657	12,235 2,711	36,428 7,874	5,797 1080	20426 3,215	8769 545	109654 22210	9%
4.	Japan	1,889 450	5670 1183	7063 1,562	14,089 2,972	12,243 2,237	10,550 (1,718)	1,2752 (319)	93396 (18,352)	7%
5.	Netherlands	3,922 883	4283 899	5501 1213	6,698 1409	10,054 (1,856)	13,920 (2,270)	20960 (149)	77,258 14,530	6%
6.	U.S.A	8,002 1802	9230 1943	5353 1170	5,347 1115	3,033 (557)	4807 (806)	11,150 (1824)	6,6880 (13,751)	6%
7.	Cyprus	5,983 1,287	7728 1627	4171 913	7722 1587	2,658 (490)	3401 (557)	861 (144)	39,325 8038	3%
8.	Germany	2,750 (629)	2980 (626)	908 (200)	7452 (1622)	4,684 (860)	6,093 (1,038)	6904 (1,125)	38509 (7,644)	3%
9.	France	2,098 (467)	1,437 (303)	3,349 (734)	3,110 (663)	3,487 (646)	1,842 (305)	3881 (635)	22,588 4,513	2%
10.	UAE					987 (180)	1562 (255)	2251 (367)	15,120 (3045)	1%

Source- Compiled from various issues of Department of Industrial policy and promotion (DIPP)

Share FDI equity inflows of top ten investing countries.

Remaining percentage of FDI is acquired from other countries of the world.

% age worked out in US\$ terms & FDI inflows received through FIPB/SIA+RBI's Automatic Route acquisition of existing shares only.

As it can be seen in table no 4, Mauritius tops the list of top ten countries investing in India. In the year 2008-09 the total investment of Rs. 50899 crores was made by Mauritius this increased to Rs.51654crores in the year 2012-13. However the inflows from Mauritius fell thereafter for two consecutive years. The cumulative inflows (April'00-Feb 15) from Mauritius sums up to Rs 425657crores.It contributes around 35% of the total FDI inflows in India. Mauritius is followed by Singapore in terms of investment inflows, although the inflows were not very steady still Investment inflows from Singapore comprise 13% of the total FDI inflows. The cumulative inflows from Singapore from April'00 till March' 15 have been Rs.165200 crores. U.K and Japan stand at number three and four, in terms of cumulative FDI inflows which stood at Rs 109654 and Rs 93396 respectively.UK contributes 9% and Japan 7% of the total FDI inflows. Netherlands captures5th position in terms of FDI inflows, peculiar feature about Netherland that makes this country apart from others is the inflows from this country has never decreased in the last six years. It had steadily increased. The cumulative inflows of Rs 77258 crores contributes around 6% of FDI inflows.USA stands at 6th position in terms of total FDI inflows. Although USA also had its share of ups and downs after 2009 there had been a constant decline n inflows from USA the cumulative inflows from USA have been Rs 66880 crores, contributing around 6% of total FDI inflows in India. Cyprus captures 7th position, with cumulative inflows of Rs39325crores comprising 3% of total FDI inflows. Germany and France stand at 8th and 9th positions have contributed cumulative inflows of Rs 38509 crores and Rs 22588 crores respectively .Germany contributes 3% and France around 2% of total FDI inflows in India. Of late UAE has found for itself number 10th position in terms of FDI inflows in India. The total cumulative inflows of around Rs 15,120 crores comprise 1% of total FDI.

TABLE: 4.5: STATE WISE FDI INFLOWS IN INDIA**(Amount in US\$ million)**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Cumulative inflows, April'00 to March 15
US\$ MILLION								
Maharashtra	12,431	8,249	6,097	9,553	8,716	3,420	6361	67,795
New Delhi	1,868	9,695	2,677	7,983	3,222	6,242	6875	49,240
Tamil Nadu	1,774	774	1,352	1,422	2,807	2,116	3818	17,014
Karnataka	2,026	1,029	1,332	1,533	1,023	1,892	3444	16,120
Gujarat	2,826	807	724	1,001	493	860	1,531	11,041
Andhra Pradesh	1,238	1,203	1,262	848	1,159	678	1369	10,015
West Bengal	489	115	95	394	424	436	239	2,981
Chandigarh	0	224	416	130	47	91	39	1,331
Rajasthan	343	31	51	33	132	38	541	1,264
Madhya Pradesh	44	54	451	123	220	119	100	1,216
Kerala	82	128	37	471	72	70	7	988
Goa	29	169	302	38	9	17	35	823
Uttar Pradesh	0	48	112	140	31	25	110	483
Orissa	9	149	15	28	52	48	9	398
Assam	42	11	8	1	5	0.6	5	84
Bihar	0	0	5	24	8	1	11	50
other	4181	3148	4491	12782	4,004	8,245	6211,	61,951
Total	27332	25834	19427	36504	22424	24299	30931	248633

Source: Department of Industrial Policy and Promotion (DIPP), Ministry of commerce and Industry, Government of India.

The above table no.3 shows state wise inflows of foreign direct investment in Indian states from 2008-09 to 2014-15. Inflows are shown per year as well as cumulative (April'00 to March 15) .Maharashtra region recorded lowest inflows in the year 2013-14 when FDI inflows were US 3240 million \$ compared to US8716 \$ in the previous year i.e.2012-14. However Maharashtra region tops rest of the states in India in terms of cumulative FDI inflows. Next is New Delhi region which received a cumulative inflow of US 49240 million \$. If we see the trend of FDI inflows to national capital region then we find that for 2012-13 and 2013-14 the inflows were more for New Delhi. Tamil Nadu, Karnataka and Gujarat are at third, fourth and fifth position with cumulative inflows of US 17,014 million \$, US16, 120 million \$ and US 11, 041 million \$ respectively. While analyzing the inflows in Gujarat it can be said that inflows had been very unsteady. Andhra Pradesh received cumulative inflows of US 10015 million \$.West Bengal received US. 2981 million \$ of cumulative FDI inflows, and stood at number sixth position. Chandigarh, Rajasthan and Madhya Pradesh received US.1331 million \$,US.1,264 million \$and US.1216 million \$ respectively . These figures are very small when we compare the area of all these three states. The government of these states must amend the policies or remove the hurdles which act as a constraint to the inflows of FDI into these states. Kerala, Goa, Uttar Pradesh and Orissa get a meager share of cumulative FDI inflows which amount to US 988million \$, US 823 million\$ and US 483 million \$ respectively. The region of both Assam and Bihar rather get very little share of FDI inflows, the cumulative inflows amount to US 84million \$and US50 million \$ respectively. The regions other than what is already mentioned in the table manage to receive cumulative inflows of Rs 61,951.

TABLE: 4. 6 : SECTOR WISE INFLOWS OF FDI IN INDIA**(Amt in crores)**

Sector	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Cumulative inflows (April'00-Mar15)	Percentage of Total inflows (April'00-April'15)
Service sector	28516	19945	15,054	24656	26,306	13,294	19,963	205532	17
Construction development, township, housing, built-up, infrastructure	8792	13544	7,690	15236	7248	7,508	4582	113140	10
Tele communications; radio paging, cellular mobile, basic telephone service	11727	12338	7548	9012	1654	7987	17372	84092	7
Computer software and hardware	7329	4127	3551	3804	2656	6896	13,564	73,235	6
Drugs & Pharmaceuticals		1005	961	14,606	6011	7191	9211	65282	5
power	4382	6908	5709	7678	2923	6519	3985	46640	4
Automobile industry	5212	5893	5864	4347	8384	9027	15794	63991	5
Metallurgical Industry	4157	1999	5023	8,348	7878	3436	2897	41,147	4
Chemicals (other than fertilizers)	3427	1707	1810	18422	1596	4738	4077	49310	4
Hotel and Tourism	343	671	1405	4754	17777	2949	3990	40198	3

Source: DIPP, Federal Ministry of commerce and Industry ,(GOI)

Note:

1. Service sector includes Financial and Nonfinancial/ Business, outsourcing, R&D, Courier, Tech Testing and Analysis
2. FDI Sectoral data has been revalidated in line with the RBI guidelines.

The Table shows top 10 sectors of the Indian economy, which have received maximum amount of FDI inflows in India. The increased inflows have been characterized by a sharp change in their sectoral composition. The share of Manufacturing sector in terms of the amount received which once stood at the top for many years, had considerably lowered in 2014-15 at Rs 19963 crores, a reduction of 8553 crores (30%) in 7 years. The service sector had tried to recover in the year 2012-13 when the inflows were around 92% of what they were in the year 2008-09. In terms of amount received, construction and real estate stood at the second position with total cumulative receipts from 2000 to 2015 summing up to Rs. 113140 crores. It is interesting to note that the trend of inflows in construction industry is very volatile. In the span of the last 7 years it reached its peak in the year 2012-13 (Rs.15236 crores), nevertheless it claims 10% of the share of total FDI inflows since the year 2000 .The telecommunication sector stands at number three position with total cumulative output standing at Rs 84092crores .This sector is also not free from the volatility, after touching its low in the year at Rs 1654 crores. This sector performed rather extraordinarily claiming 7 % of the total FDI inflows in the country. Computer software and hardware sector is at number four in terms of receiving FDI inflows. The total amount of inflows which stood at Rs7329 crores reached to Rs 13564 crores in the year 2014-15, registering an increase of 85% over a period of six years. Cumulative inflow of this sector stood at Rs. 73235. This sector claims 6% of the total FDI inflows in India. The next sector which has drawn around 5% of the total FDI inflows is Drugs & Pharmaceuticals. Looking at the trend of inflows in this sector we can say that this sector is picking up in terms of attracting FDI inflows slowly and steadily. The cumulative inflows to this sector stand at Rs.65282 crores which is quite impressive. Next very important sector often considered as sunrise sector of the economy is automobile sector This sector also draws almost 5% of total FDI inflows. One thing that sets this sector apart from other sectors is the fact that, it has maintained consistency in receiving the inflows. From 2008 till 2014 the inflows to this sector increased 300 times. At number

nine and ten are Chemicals (other than fertilizers) and hotel and tourism sector respectively. Chemicals sector receives 4% of the total FDI inflows. The cumulative FDI inflows to this sector was Rs 49310 crores and hotel and tourism drew Rs 40198 crores of cumulative inflows till 2015. The favorable policies and liberal investment atmosphere of Indian economy are actually attracting FDI inflows in the above mentioned 10 sectors of the economy. In the coming years, government expects to attract more FDI in the above mentioned sectors and also in the other sectors of the economy where the options of investments have not been explored optimally.

India has introduced many reforms in its policy regime, having realized the important contribution of foreign direct investment to economic development. Regulated investment policies have been liberalized over the years. Many types of incentives are offered to attract foreign direct investment. As per the observed trend of FDI in India since 1991 it is being noticed that although the overall inflows of FDI has increased since the implementation of the reforms, nevertheless India has received very less FDI in comparison to its actual potential. The reasons often cited to curb the growth of FDI in India are outdated laws, ineffective implementation of the amended policies, lack of awareness of the amendments made by the government amongst the investors, reservation of items for small scale industries, inflexible labour laws, corrupt governance at state level, bureaucratic bottlenecks, inadequate, inefficient and poor quality infrastructural facilities in most of the Indian states. To add to these problems are political instability which is quite rampant in India and defective marketing organization structure².

In the next section profile of automotive industry in India has been examined and FDI inflows into this sector have been discussed.

² Das, 1998; Rao et.al 2005; Panagaria, 2007-There is no sustained growth without low or declining barriers to trade.