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Locational Aspects of FDI in the Post-Liberalisation Period:
Some Tentative Observations

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Locational Aspects of FDI in the Post-Liberalisation Period: Some Tentative Observations*

Introduction

Since July 1991, India's industrial regulatory frame has undergone undergoing major transformation. Prior to liberalisation of the industrial policy in 1991, a number of heavy investment and infrastructure industries were reserved for the public sector. Except for four areas covering defence, atomic energy and railway transport, all the sectors have now been dereserved. Further, a large number of industries have been freed from the obligation of obtaining an industrial licence by entrepreneurs. The few industries which still require an industrial licence, under the *Industries Development & Regulation Act, 1951*, (IDRA) are Distillation and brewing of alcoholic drinks; Cigars and Cigarettes; Electronic Aerospace and Defence Equipments; Industrial Explosives; Hazardous Chemicals and Drugs and Pharmaceuticals. These are mainly governed by pollution control, defence and public health considerations.

On its part, the approval procedure and terms of entry for foreign direct investments have been liberalised extensively. Major steps taken are with regard to removal of the general ceiling of 40 per cent on foreign-held equity under the *Foreign Exchange Regulation Act, 1973* (FERA), lifting of the restrictions on use of foreign brand names in the local market; removal of the restrictions on entry and expansion of foreign direct investment into consumer goods; abandonment of the phased manufacturing programme (PMP); dilution of the 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 the equity of small scale units, reduction in tax rates; etc.

Industrial licensing system under the *Industries (Development and Regulation) Act, 1951* had been a major policy instrument for influencing location of large projects in India. Industrial undertakings are now free to select the location of a project. The only restrictions are in the case of cities with population of more than a

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million as per the 1991 census.[1] 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 designated as an "industrial area" before the 25th July, 1991. Relaxation in the locational restriction is possible if an industrial licence is obtained as per the notified procedure.[2] Location of industrial units is further regulated by the local zoning and land use as also environmental regulations. Statutory clearances relating to Pollution Control and Environment are also required for setting up industrial projects in respect of 29 industries from the Ministry of Environment, Government of India.[3] There are, however, no restrictions on setting up administrative and other central offices. Similar is the case with service enterprises.

Industrial Licensing System under the IDRA sought to influence industrial location 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 location, with the increased reliance on stock market for financing projects, the institutions' role may have got diminished. In any case, for large foreign investors capital is not expected to be a constraint. This was evident from the fact that the number and amount of capital raised from the Indian stock markets during the post-liberalisation period was very small in absolute and relative terms.[4] The central government operates three schemes: (i) Growth Centre Scheme under which 71 Centres are planned to be set up in different parts of the country; (ii) Transport Subsidy Scheme designed to promote industries in hilly, remote and inaccessible areas and (iii) Capital Investment Subsidy Scheme applicable only for the North-Eastern Region.[5] In this background, it should be expected that location of projects would be based more on incentives offered by individual states, availability of skilled manpower, industry-specific requirements like raw materials, nearness to market, ancillary development, over all infrastructure development like availability of adequate and quality power, transport facilities and

[1] The following description is based on the industrial policy details offered by the Ministry of Industry at their website www.nic.in/indmin.
[2] Electronics, Computer Software and Printing are exempt from such locational restrictions.
[3] This list includes industries like petro-chemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilisers, dyes, paper etc. If investment is less than Rs. 500 million, such clearance is not necessary, unless it is for certain highly polluting industries.
[4] See: S.K. Goyal, et. al., "Foreign Direct Investments in the Post-liberalisation Period: An Overview", paper presented at the ISID-IDPAD Workshop on *Global Capital Flows and the Indian Stock Market*, April 5-6, 1999, Institute for Studies in Industrial Development, New Delhi.
[5] For a brief description of the schemes see: India, Ministry of Industry, *Annual Report: 1998-99*.

communication and entrepreneurs' personal preferences. Since considerable emphasis is being placed on foreign direct investments in the post-liberalisation period for development of infrastructure as also industrial products it may be useful to study the locational pattern of new foreign investments. The concern for location of foreign investment gets strengthened because states have been making intense efforts to attract investment especially foreign investments. Many states made direct efforts by visiting home countries of foreign investors and location of 'MNC' projects has been used as a selling point for attracting further investments. A study of location pattern of new FDI projects may be useful for policy makers and students of regional planning.

This paper seeks to provide a broad picture of (i) state and industry-wise distribution of approved FDI during the post-liberalisation period and (ii) location of registered and administrative offices of FDI companies.[6] In view of the tentative nature of the data, the study has a limited objective of providing empirical content to various aspects of FDI in the post-liberalisation period which could help in a better understanding of its state-wise distribution.

Mode of Entry of FDI

To have a meaningful explanation of the locational preferences of foreign direct investment (FDI) in India, it is necessary to understand the pattern of approvals and modes of entry of FDI in the post-liberalisation period. Foreign direct investment 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.[7] The most common form of FDI flows is through participation in risk capital and gaining a say in management and control of the host country joint stock companies. This can occur in a variety of ways. Some of the important ways in which FDI can enter a host country are:

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[6] Another major form of foreign capital flows is portfolio investments (FPI) which are interested mainly in capital appreciation and dividends without seeking a say in management. FPI are not relevant for the present study and hence will not be covered here.

[7] While the percentage shares vary, the definition which is followed by international agencies and now adopted by the Reserve Bank of India for its studies of foreign companies is that

> Direct investment enterprises are an incorporated or unincorporated enterprises in which a direct investor, who is resident in another economy, owns 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated) RBI, "Finances of Foreign Direct Investment Companies, 1994-95, *Reserve Bank of India Bulletin*, June

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(i) Incorporation of new companies for setting up new projects;
(ii) Incorporation of new companies for taking over operations of existing companies which could be local owned or in turn FDI companies themselves;
(iii) Acquiring 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;
(v) The new ones can also be having a project on hand or of a holding company nature which would further promote subsidiaries and joint ventures, and engage in local acquisitions, franchise arrangements;
(vi) Capitalisation of reserves; and
(vii) Setting up of branches.

In the post-liberalisation period FDI entered India in all these forms. While in popular parlance FDI stands for investment by large multinational corporations, it could also be by small and medium companies and individuals. The individuals and companies can in turn be owned by foreign nationals or non-resident Indians. In official reporting of FDI approvals, however, a number of problems cropped up. The reported figures include investments below 10 per cent, the qualifying limit for FDI. They also include approvals for overseas capital issues by Indian companies, which is more in the form of portfolio investments by foreign investors. On the other hand, there is no systematic regular reporting on the actual form of entry especially through takeovers, capitalisation of reserves. In case of number of approvals too there are some problems as these represent the number of approvals and not the number of companies.[8] The following analysis should be understood in this light.

Foreign Investment Approvals

The overall value of the investment proposals and their approval by the government increased substantially since the adoption of new economic policies in 1991. (See Table-1) During the first year after adoption of the new policy package, i.e., 1991, size of approved foreign investment shot up to Rs.

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1999, pp. 731-786. Branches of foreign companies in host countries being hundred percent owned by foreign investors would be covered under the unincorporated category.

[8] For instance, a foreign company might have increased its stake in the Indian venture in stages. Each of the stage will be treated as a separate approval. Similarly, even for the same venture, the terms (say percentage share) have been changed and a fresh approval is sought it will add to the number of approvals. We have come across instances where the foreign

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534 crores from the low of Rs. 128 crores in 1990. Till the end of 1998 *i.e.*, during the seven and half years since adoption of the liberalisation package, official estimates place the total value of the approvals at Rs. 1,81,390 crores. If the amount involved in overseas capital issues by Indian companies amounting to Rs. 19,390 crores is taken out, the size of approved investments works out to Rs. 1,62,000 crores for the eight years.

Size-Distribution of Approvals

An important feature of foreign investment approvals is that very few projects account for a substantial share. A study of the approvals for the period August 1991 to August 1998 suggests that while the total number of approvals were 7,694, about 300 projects accounted for 72 per cent of the approved investment. (See Table-2) On the other extreme are 3,678 projects accounting for a very small share of 0.73 per cent in the investment. Such size-distribution of projects could be a reflection of sectoral composition of approvals and will have implications for state-wise share of investment.

Table - 1
Approvals for FDI During 1991 to 1998

Year	No. of Approved Financial Collaborations	Investment Approved (Rs. Cr.)
(1)	(2)	(3)
1991	289	534
1992	692	3,879
1993	785	8,862
1994	1,062	14,190
1995	1,355	32,070
1996	1,559	36,150
1997	1,665	54,890
1998	1,191	30,810
Total	8,598	1,81,390

Source: India, Ministry of Industry, *SIA Newsletter*, January 1999.
Note: Approved investment includes overseas capital issues by Indian companies amounting to Rs. 19,390 crores.

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collaborator again sought approval for the same item of manufacture having realised that the earlier approval for a joint venture could not be pursued.

State-wise Location of Approved Investments

States have been showing considerable interest in attracting foreign investments. In this context and in the context of wide inter-state disparities in industrialisation, location of projects with foreign investments has assumed significance. 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 January 1997, Delhi will be receiving the maximum amount of foreign investment followed by Maharashtra. More importantly, in about 30 per cent of the cases, location was not indicated at the time of the approval. These projects account for approximately one-third of the total investment.[9] While Delhi stands at 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 the foreign investors might have used the services of local agents for communication and for doing the initial spadework. Depending upon the nature of the project, the actual location could be somewhere else in the country. For all practical purposes Delhi should also be clubbed with unindicated category. It, therefore, meant that for almost half of the investment, the location details are not available. To gain better insights into the

Table – 2
Distribution of FDI Approvals
According to Size of Foreign Investment
(August 1991 to August 1998)

(Amount in Rs. Cr.)

Investment Range (Rs. Cr.)	No. of Approvals	Amount Approved	Per cent of Col. 2	Per cent of Col. 3
(1)	(2)	(3)	(4)	(5)
0 to 1 cr.	3,678	1,092.27	47.80	0.73
1 to 5 cr.	2,074	4,770.43	26.96	3.19
5 to 25 cr.	1,175	13,150.37	15.27	8.79
25 to 50 cr.	288	10,141.58	3.74	6.78
50 to 100 cr.	183	12,548.66	2.38	8.39
100 to 500 cr.	238	50,886.13	3.09	34.02
500 cr. & above	58	56,981.19	0.75	38.10
All Cases	7,694	1,49,570.63	100.00	100.00

Note: Excludes overseas capital issues by Indian companies and cases where the investment figures and foreign shares are not available.

Source: S.K. Goyal, et. al., "Foreign Direct Investments in the Post-liberalisation Period: An Overview", paper presented at the ISID-IDPAD Workshop on *Global Capital Flows and the Indian Stock Market*, April 5-6, 1999, Institute for Studies in Industrial Development, New Delhi.

[9] S.K. Goyal, et. al., *op.cit*.

shares of various states in approved FDI we attempted to introduce industry dimension to the state-wise distribution of FDI by using the data obtained from the Ministry of Industry.[10] There were, however, some differences between the published aggregates and those generated from the database. Since the latter offers better insights, a more up-to-date picture and enables improving upon the aggregates in terms of excluding overseas capital issues, it has been relied upon. There are quite a few cases for which details of location or industry classification were not available in the data provided by the Ministry. For some large cases we tried to fill the gaps with the information readily available with us.

Even after the identification of proposed location of some of the projects, nearly thirty per cent of the investment remained unidentified. Among the states, Maharashtra stands at the top with a share of 12.5 per cent. Delhi also has an important place accounting for a little more 12 per cent share. Next in importance are Karnataka, Tamil Nadu, Andhra Pradesh and Gujarat. It is interesting to note that in each of the top ten states (excluding Delhi), the top most contributor was Power and Fuels. In many of these states the sector accounts for more than half of the approved investment. In case of Delhi, Telecommunications has a substantial share of 60 per cent. The second placed industry in many of the states seems to be representative of the state's importance for the industry. For instance, Transportation Equipment and Services occupies the second position in case of Maharashtra which is the base for many automobile companies even in the pre-liberalisation period. Its share in the gross factory sector output of transport equipment and parts in 1990-91 was 28.8 per cent.[11] Similar is the case with Tamil Nadu which had a major truck manufacturer and a two wheeler manufacturer apart from ancillaries. 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. While in Gujarat, the Chemicals occupying the third place is easy to understand, the emergence of Food & Beverages at the second place is somewhat puzzling. On a closer examination it was noticed that just three approvals account for 90 per cent of the investment in this sector in Gujarat. The largest approval was for Coca-Cola group for soft drink bottling. The other two approvals were given to Cargill for solar salt and Mccain

[10] In view of the large magnitude of work involved, we have essentially relied upon the broad industry/ activity classification done by the Ministry and conveniently regrouped the same.

Table –3

State-wise Distribution of FDI Approvals and Major Recipients in Each State: 1991-1998

State	No. of Approvals	Amount (Rs. Cr.)	Major Sectors
(1)	(2)	(3)	(4)
Maharashtra	1,278	21,221 *(12.51)*	Power & Fuel (30.89) Transportation –Eqp & Service (18.66) Chemicals (7.95) Food & Beverages (4.83) Financial Services (4.49) Metallurgical Industries (4.41)
Delhi	675	20,624 *(12.16)*	Telecommunications (60.09) Food & Beverages (9.77) Hotels & Tourism (5.64) Other Services (4.85) Financial Services (4.34) Power & Fuel (4.09)
Karnataka	689	16,241 *(9.58)*	Power & Fuel (63.52) Metallurgical Industries (9.98) Transportation –Eqp & Service (7.57) Chemicals (2.50) Electrical Equipment (2.19) Computer Software (1.85)
Tamil Nadu	838	11,805 *(6.96)*	Power & Fuel (30.42) Transportation –Eqp & Service (28.53) Other Services (8.52) Food & Beverages (5.25) Non-metallic Mineral Products (4.90) Telecommunications(4.88)
Andhra Pradesh	431	8,304 *(4.90)*	Power & Fuels (63.40) Chemicals (7.04) Paper & Products (6.95) Metallurgical Industries (6.22) Food Processing (4.07) Textiles (2.59)
Gujarat	358	8,041 *(4.74)*	Power & Fuel (46.89) Food & Beverages (15.36) Chemicals (11.76) Metallurgical Industries (6.90) Transportation –Eqp & Service (4.10) Industrial Machinery (3.40)
Orissa	66	6,871 *(4.05)*	Power & Fuels (68.80) Metallurgical Industries (29.31) Unclassified (0.64)
West Bengal	249	6,810 *(4.02)*	Power & Fuels (52.90) Chemicals (29.41) Telecommunications (4.83) Financial Services (2.20) Electrical Equipment (2.14) Industrial Machinery (1.67)
Madhya Pradesh	128	6,721 *(3.96)*	Power & Fuels (53.85) Metallurgical Industries (28.24) Textiles (5.18) Consultancy Services (2.61) Food & Beverages (2.56) Non-metallic Mineral Products (2.14)
Haryana	353	4,321 *(2.55)*	Power & Fuels (61.82) Electrical Equipment (11.32) Food & Beverages (3.85) Unclassified (3.85)

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[11] India, Central Statistical Organisation, *Annual Survey of Industries: 1990-91*, Summary Results for the Factory Sector.

			Commercial, Office & Household Eqp. (3.47) Transportation –Eqp & Service (3.43)
Uttar Pradesh	331	3,323 *(1.96)*	Power & Fuels (30.25) Transportation –Eqp & Service (27.16) Food Processing (9.42) Chemicals (9.05) Electrical Equipment (8.05) Computer Software (5.05)
Rajasthan	165	2,322 *(1.37)*	Power & Fuel (66.32) Chemicals (8.87) Metallurgical Industries (5.28) Non-metallic Mineral Prod. (4.97) Textiles (4.71) Industrial Machinery (2.63)
Punjab	93	1,002 *(0.59)*	Chemicals (47.23) Textiles (25.00) Telecommunications (11.34) Leather & Leather Products (3.85) Metallurgical Industries (2.28) Food Processing (2.21)
Kerala	89	867 *(0.51)*	Power & Fuel (77.22) Rubber Products (6.46) Agricultural Machinery (2.96) Textiles (2.91) Chemicals (1.97) Electrical Equipment (1.69)
Goa	64	468 *(0.28)*	Transportation Equipment (36.37) Chemicals (12.50) Industrial Machinery (11.33) Telecommunications (10.19) Non-metallic Mineral Prod. (8.20) Financial Services (5.77)
Himachal Pradesh	28	350 *(0.21)*	Hotels & Tourism (53.73) Food & Beverages (24.82) Chemicals (8.29) Power & Fuel (4.54) Electrical Equipment (3.65) Textiles (2.82)
Pondicherry	37	223 (0.13)	Chemicals (83.13) Power & Fuels (6.73) Food & Beverages (2.68) Electrical Equipment (2.11) Trading (1.80) Other Services (1.05)
Bihar	38	171 *(0.10)*	Electrical Equipment (38.90) Power & Fuels (22.41) Chemicals (10.79) Metallurgical Industries (7.91) Industrial Machinery (6.33) Computer Software (4.39)
Chandigarh	17	138 *(0.08)*	Food & Beverages (50.37) Telecommunications (46.74) Electrical Equipment (1.16)
Others	57	148 *(0.08)*	
Not Available	2,579	49,595 *(29.25)*	Telecommunications (27.44) Power & Fuel (18.44) Food Processing (7.59) Electrical Equipment (7.46) Chemicals (6.83) Metallurgical Industries (5.91)
Total	8,563	1,69,564 *(100.00)*	

Note: Figures in brackets in Col. (3) indicate percentages to the total Those in Col. (4) are calculated with respect to the state totals.

Source: Generated from FDI approval database.

Foods for frozen french fries and potato products. In Kerala, Rubber & Rubber Products occupying the second also seem easy to understand. It also seem logical that in case of Himachal Pradesh Hotels & Tourism accounts for more than half of the investment.

In some of the states, the top two industries account for bulk of the investment approved. In case of Orissa, Power & Fuels and Metallurgical Industries account for as much as over 98 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 82 per cent. In case of West Bengal, the combined share of Power & Fuels and Chemicals was once again 82 per cent. Nearly 63 per cent of the investment in the Chemicals sector in the state is accounted for by the much delayed and now revived Haldia Petrochemical project and another 26 per cent by the project proposed by WBIDC in association with Mitsubishi Chemicals Corp. The overall neglect of Bihar is further highlighted from the fact that it accounted for just 38 approvals – only one more than Pondicherry) and its share in total was as low as 0.10 per cent.

The state and sectoral distribution of approved FDI suggests the states' desire to improve availability of power and the foreign investors understanding of the states' resource endowment and industrial base. It also suggests that actual realisation would depend significantly on the implementation of a few large projects.

Industry-wise Distribution of FDI

Industrial policy changes, especially with regard to public sector, led to a dramatic upsurge in approvals for new projects in power, oil and telecommunications. Nearly half of the total approved FDI was proposed in these sectors. (See Table-4) These two sectors are also the ones which suffered long delays in implementation. Karnataka has the largest share in Power & Fuels followed by Maharashtra and Andhra Pradesh. While in case of Maharashtra the major project of Enron has gone on stream, the two major projects Cogentrix in Karnataka and Hinduja National Power in Andhra Pradesh may take quite some time to come up. In the case of Telecommunications, Delhi and unidentified categories account for as much as 92 per cent of the approved investment. This is understandable because, unlike in other sectors, location of cellular and basic services is dependent upon successful bidding for different circles. One may not therefore attach much significance to the observed distribution. Next in importance is the transportation sector which showed a high preference for Maharashtra and the two southern states Tamil Nadu and Karnataka. Very little has been attracted by the Northern states. Chemicals and Metallurgical industries follow closely with 6.57 and 6.48 per cent shares respectively. There are some similarities in the pattern of FDI in Paper industry and the national pattern. In both cases, Maharashtra occupies the top most position. While Andhra Pradesh was in the second position in terms of FDI approvals for the industry, it was at the third position in 1990-91 in terms of gross output. The second placed Tamil Nadu also figures prominently in FDI approvals for the paper industry.

Food & Beverages, with nearly six per cent share, is the next largest industry. The sector is dominated by soft drink manufacturers and their associated fast food chains. Location of group headquarters for such companies in any state may not mean much because they would have bottling operations in different parts of the country whether owned directly or operated under bottling and distribution contracts. Similar would be the case with fast food chains like Mcdonald, KFC and Pizza Hut as these are more in the nature of service enterprises. The chains are more likely to target the metropolitan cities to start with. Their operations are bound to be spread across states unlike manufacturing which is location specific. Many of the product/Service groups are characterised by high degree of non-availability of location details e.g. Electrical Equipment, Financial Services, Computer Software, and Trading making any inferences regarding locational preferences difficult.

Project Implementation and Actual Inflows of FDI

While the investment approvals show a promising picture, at least in comparison to India's past experience, considerable anxiety is expressed in different quarters over the slow pace of inflows. Official figures indicate that inflows constitute a little more than one-fifth of the approvals.[12] One possible explanation is that inflows do not start flowing immediately after the approval, and there will be time lag between approvals and inflows, especially for large and long gestation projects. In these cases it is reasonable to assume that actual flows of capital would be gradual and vary with the project’s progress. The number of approvals against

[12] India, Ministry of Finance, *Economic Survey: 1998-99*, p. 87.

Table –4
Sector-wise Distribution of Approved FDI: 1991-1998

Product/Service Group	**Amount (Rs. Cr.) & Share in Total (%)**	**Major States and their Share in the Group (%)**
(1)	(2)	(3)
Power & Fuels	57,403 *(33.85)*	Karnataka (17.97), Not Available (15.93) Maharashtra (11.42) Andhra Pradesh (9.17) Orissa (8.23) Gujarat (6.57)
Telecommunications	27,968 *16.49)*	Not Available (48.66) Delhi (44.31) Tamil Nadu (2.06) Maharashtra (1.54) West Bengal (1.18) Karnataka (0.87)
Transportation & Equipment	12,015 *(7.09)*	Maharashtra (32.96) Tamil Nadu (28.03) Not Available (10.24) Karnataka (10.23) Uttar Pradesh (7.51) Delhi (4.02)
Chemicals	11,146 *(6.57)*	Not Available (30.40) West Bengal (17.97) Maharashtra (15.14) Gujarat (8.48) Andhra Pradesh (5.25) Punjab (4.25)
Metallurgical Industries	*10,985* *(6.48)*	Not Available (26.68) Orissa (18.33) Madhya Pradesh (17.28) Karnataka (14.75) Maharashtra (8.52) Gujarat (5.05)
Food & Beverages	10,120 *(5.97)*	Not Available (37.18) Delhi (19.92) Gujarat (12.21) Maharashtra (10.13) Tamil Nadu (6.12) Andhra Pradesh (3.34)
Electrical Equipment	6,601 *(3.89)*	Not Available (56.02) Maharashtra (8.43) Haryana (7.41) Delhi (6.01) Karnataka (5.40) Uttar Pradesh (4.05)
Financial Services	4,906 *(2.89)*	Not Available (54.25) Maharashtra (19.42) Delhi (18.24) West Bengal (3.05) Tamil Nadu (2.27) Karnataka (1.24)
Other Services	4,014 *(2.37)*	Tamil Nadu (25.04) Delhi (24.93) Maharashtra (19.35) Not Available (19.15) Karnataka (6.27) Haryana (1.36)
Computer Software	3,258 *(1.92*	Not Available (46.76) Delhi (14.60) Karnataka (9.23) Gujarat (7.85) Maharashtra (6.77) Uttar Pradesh (5.15)
Hotels & Tourism	3,161 *(1.86)*	Delhi (36.81) Not Available (27.70) Maharashtra (23.60) Himachal Pradesh (5.95) Tamil Nadu (3.50) Karnataka (0.70)

Non-Metallic Mineral Products	2,756 *(1.63)*	Not Available (32.14) Tamil Nadu (20.99) Maharashtra (19.98) Madhya Pradesh ((5.21) Andhra Pradesh (5.06) Rajasthan (4.19) Punjab (0.04)
Industrial Machinery	2,621 *(1.55)*	Not Available (34.08) Maharashtra (20.87) Gujarat (10.43) Karnataka (9.57) Tamil Nadu (6.93) West Bengal (4.34)
Textiles	2,158 *(1.27)*	Madhya Pradesh (16.12) Maharashtra (13.04) Punjab (11.61) Gujarat (10.94) Karnataka (10.15) Andhra Pradesh (9.98)
Consultancy Services	2,002 *(1.18)*	Not Available (41.52) Delhi (16.60) Tamil Nadu (13.52) Karnataka (12.91) Madhya Pradesh (8.77) Maharashtra (3.81)
Paper, Pulp & Products	1,871 *(1.10)*	Maharashtra (39.39) Andhra Pradesh (30.83) Not Available (18.57) West Bengal (2.85) Tamil Nadu (2.32) Uttar Pradesh (1.93)
Not Classified	1,753 *(1.03)*	Not Available (47.06) Haryana (9.48) Maharashtra (7.11) Tamil Nadu (5.55) West Bengal (5.54) Delhi (4.66)
Trading	1,482 *(0.87)*	Not Available (71.96) Delhi (9.47) Maharashtra (7.49) Karnataka (7.17) West Bengal (2.60) Uttar Pradesh (0.34)
Rubber Products	1,059 *(0.62)*	Maharashtra (37.03) Not Available (21.03) Tamil Nadu (16.06) Madhya Pradesh (11.90) Kerala (5.29) Karnataka (3.76)
Commercial, Office & Household Equip.	1,045 *(0.62)*	Not Available (46.43) Maharashtra (23.56) Haryana (14.36) Uttar Pradesh (7.31) Tamil Nadu (5.46) Delhi (2.35)
Agriculture & Allied Activities	966 *(0.57)*	Maharashtra (31.30) Karnataka (25.31) Not Available (21.23) Andhra Pradesh (9.31) Haryana (3.00) Kerala (2.65) Delhi (0.03)
Leather & Leather Products	274 *(0.16)*	Not Available (42.72) Tamil Nadu (22.05) Punjab (14.10) West Bengal (6.69) Haryana (4.61) Uttar Pradesh (2.56)

Source: Generated from FDI approval database.

which inflows have been recorded would, probably, give a better indication of the extent of likely implementation of approved foreign investment projects. This information is not, however, available. Apart from the problems with the two major sectors Power & Fuel and Telecommunications, low level of realisation could also be due to non-implementation of a few large projects. They can most probably be treated as abandoned. Some of these are: Parmar Refinery project in Gujarat; Hinduja's proposal for East Coast Refinery in Orissa, Swraj Paul's (Caparo) plans to set up the Kalinga steel plant, Bezeq's joint venture proposal with Himachal Futuristic, BMW proposals with Escorts and Hero group for motor cycle manufacture in the North, Dadi Balsara's proposal for setting up a hotel and resorts project in Himachal Pradesh, Metdist's (Bagri) proposals for setting up a copper smelter and refinery in Madhya Pradesh are some of the important ones. We are also not sure whether Itochu of Japan has finally taken up and retained its investment in Reliance refinery project. In some of the cases substitutes have been planned but the originally proposed FDI may well be written off. Such failures can prove to be substantial for some states and sectors. For instance, we noticed earlier that in Himachal Pradesh, Hotels & Tourism accounted for more than half of the investment approved for the state. Food & Beverages was at the second place with about 25 per cent. (Table –3) Mr. Dadi Balsara's proposals for hotels and resorts and mineral water constituted over 90 per cent of the investment in these sectors. Since the first one was abandoned and the foreign investment component was brought down drastically in the latter it can safely be assumed that at least Rs. 260 crores of the Rs. 350 crores approved for the state would not materialise.

Instead of the aggregate-level comparisons, a sector-wise comparison could provide a better idea of inflows and project implementation. This is, however, possible if FDI inflow data is available for the industry groupings similar to the ones followed in the case of approvals. Unfortunately, RBI follows its own classification and level of aggregation. In spite of these problems of comparison, the fact that infrastructure sectors received very little investment becomes evident from the inflow data released by the RBI for the past four years (1994-95 to 1997-98). The top most position was occupied by Engineering followed by Electronics & Electrical Equipments, Chemicals & Allied Products, Finance and Services. (See Table – 5) Power, Fuel and Telecommunications do not figure in the details offered by RBI possibly because they had very low shares. If one goes by the actual inflows data, the state and sector-wise distribution of approved investment may appear irrelevant.

Table – 5
Industry-wise Inflow of Foreign Investment: 1994-95 to 1997-98

Industry / Sector	Amount US $ Mn.	Percentage in Total
(1)	(2)	(3)
Engineering	1,693.6	23.5
Electronics & Electrical Equipment	984.2	13.7
Chemical & Allied Products	829.0	11.5
Finance	732.6	10.2
Services	530.3	7.4
Food & Dairy Products	395.7	5.5
Computers	260.2	3.6
Domestic Appliances	183.8	2.6
Pharmaceuticals	146.3	2.0
Others	1,447.3	20.1
Total	7203.0	100.0

Note: Exclude inflows under the NRI direct investments route through the RBI.
Source: S.K. Goyal, et. al., "Foreign Direct Investments in the Post-liberalisation Period: An Overview", op. cit.

Takeover and Consolidation of Control

While the foregoing details provide the broad pattern of sectoral and state-wise distribution of approvals and actual inflows of FDI, a factor which seem to be playing a major role in FDI inflows is the phenomenon of takeover of Indian companies / units on one hand and consolidation of control by foreign investors on the other. In a good number of cases, FDI preferred to follow the take-over route to make a quick entry or to consolidate their position in the Indian market. Many of the erstwhile foreign subsidiaries which were required to bring down the level of foreign equity to 40 per cent under the *Foreign Exchange Regulation Act, 1973* increased foreign shares to regain the subsidiary status (e.g. Colgate, Hoechst, Ponds, Philips Nestle, Castrol, Cadbury and Procter & Gamble). Consolidation of control has also taken the form of the foreign partner buying up the stake of the Indian joint venture partner (e.g. IBM in Tata IBM, Ford in Mahindra Ford, Denso in Nippon Denso, Daewoo in DCM Daewoo).

The initial and well-known case of takeover was the Coca Cola's buying up of Thums Up and other brands of the Parle Group. In a some cases, the take-over factor remains hidden. For instance, Heinz started its operations by taking over the food business of Glaxo and Modi-RJR's foray into manufacturing was through the takeover of a small cigarette manufacturer in Andhra Pradesh. Certain existing units were transferred to new joint venture companies while the original Indian companies continue to exist. For example, in case of Rubber Products (Table -4) it was noticed that Maharashtra occupied the top most position. This was, however, due to the transfer of a unit of Ceat to the joint venture with Goodyear USA. Goodyear ultimately took full control of the venture. In a more recent instance of its kind it was reported that Lafarge of France took over the Cement Division of TISCO. The process obviously does not involve setting up of a new unit. It is understandable that in case of takeover or consolidation there may not be immediate addition to production and employment.

Case Study of Automobile Industry

The automobile industry offers a useful example to understand the various factors affecting location of FDI projects. For this we have examined the location of main offices and plants of members of the Association of Indian Automobile Manufacturers (AIAM) who received approvals for FDI during the post-liberalisation period. The details are given in Table –6. It can be seen that for Ashok Leyland, Maruti Udyog, 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. Ford's initial operations were also influenced by the partner's location in Maharashtra. Later on they opted for Tamil Nadu. Hyundai does not have a local partner and it chose Tamil Nadu. Volvo also does not seem to have a local partner and it opted for Karnataka. 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 plant in Uttar Pradesh.

In case of increase in equity and takeover of plants, there are obviously no additional locational factors are involved. Proximity to joint venture partners is one important consideration influencing location. The two new and unassociated entrants are Hyundai Motor, Ford and Volvo. The former two preferred Tamil Nadu and the last one opted for Karnataka. Industry professionals are of the opinion that

Table-6
Select List of Automobile Companies which received FDI Approvals during the Post-liberalisation Period

Name of the Company	Item(s) of Manufacture	Registered Office	Location of Plant	State	Remarks
Tata Cummins Ltd	Diesel Engines & Components	Telco Township, Jamshedpur	Telco Township, Jamshedpur	Bihar	New JV with Telco
Volvo India Pvt Ltd	Heavy Comm-ercial Trucks	NA	Hoskote Tq, Bangalore	Karnataka	New Independent Venture
Ashok Leyland Ltd	Light, Medium & Heavy Commercial Vehicles	Chennai	Tamil Nadu, Rajasthan, Maharashtra & A.P.	Tamil Nadu (Mainly)	Existing company. Additional foreign equity infusion
Escorts Yamaha Motor Ltd	Motor Cycles & Mopeds	New Delhi	Surajpur Indl Area & Faridabad	U.P. & Haryana	Took over the operations from the Indian partner Escorts Ltd
LML Ltd	Scooters	Kanpur	Kanpur	Uttar Pradesh	Existing Company. Fresh equity by foreign partner
Ford India Ltd	Passenger Cars	Chennai	Maramalai Nagar, Chingelput Dist.	Tamil Nadu	The Indian partner Mahindra exited from the venture. With that the operations in Maharashtra ceased
General Motors India Ltd	Passenger Cars	Halol	Halol	Gujarat	Took over the plant for the Indian partner Hindustan Motors Ltd
Mercedes Benz India Ltd	Passenger cars	Pune	Pimpri, Pune	Maharasht ra	Indian partner TELCO has operations in Pimpri
Pal-Peugot Ltd	Passenger Cars	NA	Dombivli, Dist. Thane	Maharasht ra	The plant was takenover from the Indian partner Premier Automobiles
Fiat India Automobiles Pvt Ltd	Passenger Cars	Mumbai	Mumbai	Maharasht ra	Fiat, Italy has formed a joint venture with Premier Auto by taking over the latters' Kurla unit.
Hyundai Motors India Ltd	Passenger Cars	Chennai	Kanchee-puram Dist.	Tamil Nadu	Independent Venture.
Honda Siel Cars India Ltd	Passenger Cars	New Delhi	Greater NOIDA	Uttar Pradesh	Honda's other venture with Shrirams has plants in UP & Pondicherry
Maruti Udyog Ltd	Passenger Cars & Light Duty Utility Vehicles	New Delhi	Gurgaon	Haryana	Existing Company. Fresh investment by the Foreign Collaborator
Daewoo Motors India Ltd	Passenger Cars, LCVs	New Delhi	Surajpur Indl Area	Uttar Pradesh	An existing joint venture manufacturing LCVs with Toyota was taken over by Daewoo
Toyota Kirloskar Motors Ltd	Passenger Cars	NA	Ramnagar Tq, Bangalore Rural Dist.	Karnataka	Kirloskars, the Indian partners have operations in Karnataka incl. Bangalore

the choice of Tamil Nadu by Ford and Hyundai is due to better facilities offered by the State in terms of tax holiday and prompt state government support in allotment of land, etc. The relevance of incentives and facilities in influencing FDI projects need to be further ascertained.

Location of Registered and Administrative Offices

In the context of increasing pressure on urban infrastructure, it may be useful to study the choice of cities for setting up administrative and operational/group head quarters by FDI companies. It is possible that such offices may not always be at the site of plants/manufacturing operations as the latter would be set up away from urban centres either due to locational restrictions or economic considerations. Being global organisations, large FDI companies would need to be in good contact with their regional offices and headquarters in their home countries. Especially in case of multi-plant multi-company operations there would be need for a main co-ordinating point within the host country. Major cities may be the preferred choice for setting up registered/corporate offices due to better connectivity, communication facilities , proximity to decision-making authorities, financial institutions and banks and availability of other services. To some extent these requirements would be common for local large companies also.

The pattern of company registration in India reflects heavy state, district and city-wise concentration. The share of five states namely, Maharashtra, Delhi, West Bengal, Tamil Nadu and Gujarat worked out to about 70 per cent in terms of number of companies at work towards the end of 1998.[13] Earlier it was noted that about 16 cities, led by Mumbai, Delhi, Calcutta, Chennai and Ahmedabad, in that order, accounted for 70 per cent of the companies registered in India. Registered Office (RO) has certain significance under the Companies Act, 1956. Companies have to keep specified type of records and registers at the place designated as Registered Office and notices can be served on the company only at its RO. Annual General Meeting of the shareholders has also to be held at the city where the office is located. For larger companies the location of RO may be influenced by the convenience of the senior management. The location of RO should reflect the importance of the city for the senior management. In cases the RO is not in major cities, larger companies and groups may have their corporate offices in cities.

[13] Annual Report of the Department of Company Affairs for the year 1998-99.

To understand the importance of metropolitan cities for location of registered/head office, we have examined the addresses of more than 3,500 manufacturing companies listed on Indian stock exchanges provided in a corporate database. The database contains addresses of plants, Registered offices and other important offices.[14] For purposes of this exercise, it has been assumed that Corporate, Head and Administrative Offices are used interchangeably by companies as these do not have any statutory significance unlike the Registered Office. From out of the 3,500 odd companies, we have identified 237 companies with at least 25 per cent direct foreign equity excluding investment by non-resident Indians, foreign portfolio investors, etc. Companies takenover during the post-liberalisation period have been kept out of this category because their RO location is likely to reflect the choice of the original Indian promoters instead of foreign investors. The main limitation of this exercise is that most of the 237 companies were older ones and do not help in understanding the behaviour of new entrants while the total sample consists of a mixture of the old and new.

Expectedly, the major metropolitan cities Mumbai, Delhi, Calcutta and Chennai host the maximum number of Registered offices. (Table-7) In case of All Companies while Hyderabad is at the fifth position, Bangalore occupied a similar position in respect of FDI companies. In the over all, about 70 per cent of the FDI companies have their registered offices in these six cities in contrast to a little less than half in the case of All Companies. The results are similar to the ones obtained in an earlier study which observed that a majority of corporate headquarters of foreign

Table-7
Location of Registered Offices by Stock Exchange Listed Companies

	All Companies		FDI Companies	
	City	No. of Companies	City	No. of Companies
	(1)	(2)	(3)	(4)
1	Mumbai	696	Mumbai	77
2	Delhi	261	Calcutta	24
3	Calcutta	229	Chennai	23
4	Chennai	225	Delhi	21
5	Hyderabad	208	Bangalore	15
6	Ahmedabad	147	Pune	11
7	Bangalore	106	Hyderabad	7
8	Pune	73	Vadodara	6
9	Coimbatore	68	Aurangabad	4
10	Vadodara	51	Faridabad	3
	Sub-total of Top 10 Cities	2,064	Sub-total of Top 10 Cities	191
	Total Including Others	3,583	Total Including Others	237

Source: Generated from the ERS database.

[14] It is known as Equity Research Station and is serviced by Asian CERC.

Table-8
Size-wise Distribution of Registered Offices of Listed Companies

Size-Range (Income in Rs. Cr.)	All Companies				Foreign Controlled Companies			
	All Locations	Of Which			All Locations	Of Which		
		Mumbai, Delhi, Chennai & Calcutta	Bangalore & Hyderabad	Share of the Six Cities (%)		Mumbai, Delhi, Chennai & Calcutta	Bangalore & Hyderabad	Share of the Six Cities (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Less than 10	1137	385	117	44.15	22	10	1	50.00
10 – 25	680	258	66	47.65	21	10	4	66.67
25 – 50	518	200	48	47.88	40	15	6	52.50
50 – 100	497	218	33	50.50	35	23	2	71.43
100 – 500	578	254	44	51.56	88	63	7	79.55
500 – 1000	94	47	7	57.45	18	13	1	77.78
1000 and above	79	49	4	67.09	13	11	1	92.31
Total	3583	1411	319	48.28	237	145	22	70.46

Source: Generated from the ERS database.

companies in India were in large cities with 1 crore and above population.[15] It also appears that larger companies preferred the six cities than the relatively smaller ones. (See Table-8) And in each of the ranges, the preference is marked in case of foreign companies. Further, it has been found that three-fourths of FDI companies have either registered, administrative, corporate or head offices in at least one of the six cities. The corresponding share for All Companies was 60 per cent. One may get better insights by relating ROs and plant locations.

Summing Up

In the new era when the emphasis is on attracting large amount of foreign investment, approvals for foreign direct investment marked a significant rise. Bulk of the investment approved is for infrastructure sectors, especially power. Power & Fuels occupied the top most position for a number of states. On the other hand, since the private power producers demand guarantees, the states may not be in a position to accede these demands and thus the projects could run into trouble or even fail entirely. Even in cases they come up, high costs may deter users. A number of projects are in the pipeline in the power sector by both public and the Indian private sectors. It should be seen to what extent, they would balance the FDI preferences.

With such high shares for the energy sector, it may not be appropriate to relate approved investment with states' characteristics such as level of industrialisation, infrastructure development, recent growth trends, etc. In may,

[15] Swapna Banerjee-Guha, *Spatial Dynamics of International Capital: A Study of Multinational Corporations in India*, Orient Longman, Hyderabad, 1997.

however, be said that the relatively backward states could not attract FDI. FDI seems to have practically ignored Bihar. Even if some states attracted investment proposals, in actual practice it appears the realisation may be quite low due to non-materialisation of approved projects.

A considerable amount of new investment in various sectors is still unallocated. To the extent it reflects abandonment of the projects, the observed pattern of investments will be reflective of the relative positions of the states. If not, the distribution could be affected to a significant extent. The phenomenon of incorporating holding companies by foreign companies adds another dimension to the understanding of locational pattern of FDI. The locally promoted ones may not have any direct investment but they are expected to possess the same characteristics of FDI companies. This study could not cover this aspect. This also leaves the question of location of FDI projects wide open.

The sectoral pattern of FDI approvals in different states appears to be related to the importance of that sector for the state as also resource endowment. This conclusion, however, cannot be extended. 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. Until the significance of takeovers is fully understood, it may be difficult to comment upon this further. However, since takeover and consolidation is relatively easier and quicker than setting up new projects, and because so far the actual inflow is quite low compared to the approved amount, new projects may not have had much impact on the regional distribution of industry. Since mergers and acquisitions have become a major form of FDI flow at the global level, it should be expected that regional pattern of industry may not be affected to the same extent as the amount of FDI inflow. On the other hand, to the extent the takenover plants are in large cities, the share of FDI companies in urban centres may go up in spite of the locational restrictions.

From the point of view of location of main administrative functions, FDI companies, especially the larger ones, preferred major cities. It needs to be studied whether this preference is continuing in the post-liberalisation period or FDI companies have begun to choose relatively smaller locations to save on costs due to improved communication facilities.

The uncertainties with regard to the choice of location, the actual implementation and the mode of implementation prevent drawing of firm conclusions. The purpose of the paper would have been served if it had helped in bringing out the ground realities and contributed to a meaningful discussion.