India's Recent Inward FDI Experience: Perceptions and Possibilities

A Workshop Organised by
Institute for Studies in Industrial Development
4 Institutional Area Phase 2, Vasant Kunj
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India's reported total FDI inflows increased from $36.0 billion in 2013-14 to $45.1 billion during 2014-15 and further to $60.1 billion in 2016-17. There is a widely held view, including by influential international agencies, that this sharp rise in the reported FDI inflows during the past three years is an outcome of the new initiatives taken by the government. The month of September 2014, during which the government announced the Make in India initiative, has turned out to be the reference point. The study, **India's Recent Inward FDI Experience: Perceptions and Possibilities**, an outcome of the ISID's long-term research programme on FDI, analysed the reported inflows after September 2014, at a much disaggregated level than what the official briefs provide. The primary aim of the exercise was to sensitise the users to the possible ways in which the inflows could be viewed to get a realistic picture. The exercise involved matching of a large number of remittances listed in the official *SIA Newsletter* with the allotment of shares to foreign investors by the respective recipient companies, as reported by them to the Ministry of Corporate Affairs. It uses a number of examples to highlight various features of the data.

The study noted that due to the prevailing reporting practices and some deep flaws, the available aggregates are extremely unsuitable for drawing straightforward conclusions. At another level, there is not much of a correspondence between the FDI policy changes, selection of thrust sectors under Make in India and the reported inflows. The exercise identified major factual as well as interpretational problems regarding the reported time of inflow, actual amount of inflow, mode of entry, route of entry, activity, etc. Delayed reporting emerged as a major issue. The delegation of powers to the regional offices of the RBI to condone FEMA violations in April 2014 is a testimony to the severity of the problem of delayed reporting. There have been some serious omissions and commissions. The distortions showed up prominently when the inflows were examined at the level of individual industries. Incidentally, the problems were quite pronounced in the record-breaking year of 2016-17. The reported inflows, which receive much attention, are thus open to multiple interpretations.

Further, the fact that foreign investors bring funds in multiple tranches and some of the investments during a period would thus be follow-ups of the decisions taken much earlier did not seem to have received the attention it deserved. This possibility is especially relevant when analysing the inflows with reference to any major policy initiative. The study indeed found that very few newly incorporated companies (registered after September 2014) received substantial FDI.

Even though official agencies are well aware of some of the problems they did not do much to sensitise the users. The fact is that a highly nuanced FDI data are being handled in a routine manner. As a result, though successive governments have pursued FDI vigorously for two and a half decades, India has not learnt to count FDI meaningfully. Even if a fraction of the money and time spent on investment promotion had been utilised to develop a responsive data system, these problems would have shown up automatically and the rise in inflows in the recent years would not have been interpreted in a simplistic manner in India and abroad.

The study demonstrated the possible pitfalls in taking the aggregates at their face value. At another level, it suggested that global FDI aggregates should not be relied upon blindly to provide guidance to developing countries like India, not only because similar problems may be plaguing the data reported by many individual countries but also because of conceptual and data compilation issues relating to FDI flows, cross-border M&As and greenfield investments. India should, therefore, neither take comfort nor get concerned with uninformed compliments or comparisons. FDI is not an unmixed blessing as it is associated with both benefits and costs. Besides inflows, there is a need to collect/organise more relevant data on other FDI-related transactions and provide access to users to facilitate continuous assessment of its contribution to India's economic development. The study underlined that besides "Ease of Doing Business" there should be emphasis on "Ease of Doing Policy Relevant Analysis" also.

In order to fine-tune the study's findings and to get feedback on the observations from a cross-section of data generators and users, prior to its publication, the Institute is organising a Workshop on January 12, 2018 at its premises.

Note: Those who wish to participate may write to Shri Rakesh at rakesh@isid.org.in