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A Changing Trend

Anant R. Negandhi

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College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

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Anant R. Negandhi, Professor
Department of International Business



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INDIAN FOREIGN INVESTMENT POLICIES: A CHANGING TREND

ABSTRACT

The paper examines the evolution of the Indian foreign investment policies. It outlines the origin of the foreign investment policies. The role of foreign investors in India's industrial and economic development is examined next with the perspective of the country's industrial policies.

Third, the implications of the foreign investment policies are being examined. Overall, the Indian foreign investment policies are regarded as restrictive in terms of allowing foreign equity participation, in the business sectors in which foreign investors are allowed entrance, and in payments for technology transfers. The impact of these restrictions has been positive as well as negative. The positive aspects are the development of indigenous entrepreneurs and technological capabilities. Under negative aspects are the monopolistic domestic market and the stagnation of industrial and technological programs.

Lastly, the new open-door policy, announced by Prime Minister Rajiv Gandhi is being discussed.

INDIAN FOREIGN INVESTMENT POLICIES: A CHANGING TREND

Introduction

The purpose of this paper is to examine recent changes in Indian foreign investment policies. To provide a perspective on recent changes, we will first briefly describe the origin of the Indian policies and then the rationale for changes in these policies.

More specifically, the paper will analyze the following aspects of the Indian foreign investment policies:

- . The origin of the Indian investment policies.
- . The rationale for inviting and encouraging private foreign investment in India.
- . The amount, sources, and types of existing foreign investments in India.
- . A change in policies in 1973.
- . Implication of restrictive Indian foreign investment policies.
- . Recent changes in the Indian foreign investment policies.

Rationale for Foreign Investment

It has long been realized that the capital needs of developing countries for generating industrial and economic development are so huge that no single source of capital can satisfy. Besides loans and grants from industrialized countries as well as domestic saving and outside borrowing, private foreign investment will be needed to achieve the goal of industrialization of the less-developed countries.

Some thirty years ago, such realization was underscored by the Rockefeller Foundation:

The capital needs of less-developed countries are so huge, relative to their resources, that rapid economic growth can be achieved only if local saving and public foreign investment are supplemented by an increasing inflow of private foreign investment.¹

Among others, Rostow,² Mikesell,³ Behrman,⁴ Lewis,⁵ and McMillan, Gonzales, and Erickson⁶ have stressed the role and potential of foreign private investment in promoting economic development in underdeveloped countries. They all argue that such investment not only adds to the capital resources of the host nations but that it is also the chief mechanism through which the managerial and technical skills of advanced nations are made available to less-developed countries.

Governments of many developing countries have realized the role a private foreign investor can play in their economic developmental efforts.

The late G. L. Mehta, former ambassador of India to the U.S., expressed the sentiments of many leaders of developing countries, when he said:

...the justification of foreign private enterprise lies not only in the compulsions of our foreign exchange problem but our needs of securing advanced technical and managerial know-how....Trade in capital and know-how takes place among advanced countries and even among countries which have no capital or foreign exchange shortages...I would therefore, say ...foreign investment would be advantageous to us... We are a part of the community of nations and should not seek to close our doors to winds of knowledge and skills from abroad.⁷

China's recent "Open-Door Policy" clearly reflects this concern.

Indian Private Foreign Investment Policy

Foreign investment in India dates back to the arrival of the East India Company from the United Kingdom in the 17th Century. Initially, foreign investment, mainly from the U.K., was in form of a loan to the government, construction of railroad and other public utilities, plantation of tea and coffee, and the agro-based industries like cotton and jute. It is only after the first World War that industries attracted foreign investors. For example, inflow of British capital which was only \$30 million in 1913-14, increased to a level of \$58 million in 1921 and \$72 million in 1922. Between the two World Wars, the investment flowed into a number of consumer industries like cigarettes, matches, rubber, tyres, paints, chemical industries, paper, cement, textile, leather, sugar, etc. During the second World War, the Government encouraged the setting up of new industries in India both to replace imports and to support war efforts. It was during this period that the foreign investment was diversified and channelled into light engineering industries as well as general purpose workshops, chemical industry and oil sector with defense orientation.

By 1948, the foreign private investment in India was estimated to be around Rs. 2.5 billion* of which 21 percent was in the manufacturing industries, 16 percent in plantation, 4 percent in mining, 27 percent in trading, and 14 percent in banking. Within the manufacturing sector, more than 50 percent of the foreign capital was invested in jute, cotton and rubber industries and around 10 percent in iron and steel and other hardware industries. With this background, India's industrial policy was announced soon after Independence on 6th April, 1948. A new Industrial Policy Resolution was adopted on 30th April, 1956. This policy Resolution of 1956 even today continues to guide India's industrial policy though it has been modified in 1970, 1973, 1977, 1980 and 1985 to make it responsive and receptive to the changing needs of technology for the modernization and growth of the Industry.⁸

*One U.S. \$ = 12.50 Indian Rubies. (Sept. 30, 1986)

THE INDUSTRIAL POLICY OF 1956

The Industrial Policy divided the industries into three categories:

The first category includes all such heavy and basic industries as arms and ammunition, atomic energy, iron and steel castings, mineral oils, aircraft, telephones and telephone cables, and electricity. In this group of industries, only the state may begin new undertakings. However, existing private industries in this group have been allowed to expand.

The second category covers industries in which both the government and private enterprise may start new undertakings. Specific industries are: aluminum; ferro-alloys and steels; antibiotics; fertilizers; synthetic rubber; chemical pulp; sea and road transport; dyestuffs; and plastics.

The third category is a catch-all, which includes all remaining and undesignated industries. This includes all consumer goods industries. The group is left open to private enterprise, but the government also may enter the field at any time.⁹

Only in the second and third categories were foreign investors allowed to invest.

The guiding principles of the foreign investment policy, derived from the 1956-Industrial Policy, were:

- (i) All undertakings--Indian or foreign--had to conform to the general requirements of the Government's industrial policy;
- (ii) Foreign enterprises would be treated on par with Indian enterprises;
- (iii) Foreign enterprises would have freedom for remittance of profits and repatriation of capital, subject to foreign exchange considerations;
- (iv) If foreign enterprises were compulsorily acquired, compensation would be paid on a fair and equitable basis; and
- (v) As a rule, the major interest, ownership and effective control of an undertaking should be in Indian hands.¹⁰

FURTHER TIGHTENING OF RESTRICTIVE MEASURES: THE 1973-FERA ACT

The above policy was to govern the entry of fresh foreign investment into India in future, but it was silent on regulation of existing foreign private investment in Indian industry. It was only in 1973 that Legislative measures were taken to cope up with the problem posed by the existing foreign owned companies. This was done by amending the Foreign Exchange Regulation Act, in 1973 which regulated the entry and channelised the growth of existing foreign investment into the country. Until then, the foreign companies continued to grow, expand and diversify their activities in their own way.¹¹

Essentially, the FERA Act of 1973, required all foreign companies, existing and new, to reduce foreign equity to 40 percent, unless the firms provide sophisticated technology not yet available in India, or they were in priority sectors, as defined by the Indian government, or they export 60 percent or more of their production. The departure of IBM and Coca-Cola from India in 1978, was mainly due to the implementation of this act. Salient features of the current foreign investment policies are given in Figure 1.

Foreign Investment Trends

The total number of foreign collaboration in India is approximately 6,000, while total foreign capital investment in India is approximately US \$3.0 billion. Table 1 provides the number of collaborations and total capital investment during 1974 to 1984. Table 2 shows the sources of foreign capital in India.

Technology Policy Statement

The basic objectives of the new policy are the development of an indigenous technology, as well as efficient absorption and adaptation of imported technology appropriate to the national priorities and resources. Its aims are to:

- a) Attain technological competence and self-reliance to reduce vulnerability, particularly in strategic and critical areas, making the maximum use of indigenous resources;
- b) Provide the maximum gainful and satisfying employment to all strata of society, with emphasis on employment of women and weaker sections of society;
- c) Use traditional skills and capabilities making them commercially competitive;
- d) Ensure the correct mix between mass production technologies and production by the masses;
- e) Ensure maximum development with minimum capital outlay;
- f) Identify obsolescence of technology in use and arrange for modernization of both equipment and technology;
- g) Develop technologies which are internationally competitive, particularly those with export potential;
- h) Improve production speedily through greater efficiency and fuller utilization of existing capabilities, and enhance the quality and reliability of performance and output;
- i) Reduce demands on energy, particularly energy from non-renewable sources;
- j) Ensure harmony with the environment, preserve the ecological balance and improve the quality of the habitat; and
- k) Recycle waste material and make full utilization of by-products.¹³

RESTRICTIVE FOREIGN INVESTMENT POLICY AND STRATEGY OF SELF-RELIANCE

Generally speaking, the Indian foreign investment policy is regarded as restrictive in business and government circles. Due to

various restrictive measures, foreign investment in India has been minimum as compared to countries like Brazil, Mexico, South Korea, and Singapore. The rationale for a restrictive policy is the Indian government's stress on self-reliance. This philosophy can easily be discerned from the technology policy outlined above.

IMPLICATIONS OF THE RESTRICTIVE POLICY

The restrictive policy is a two-edged sword. It fosters indigenous development, but also creates stagnation in technological development. Besides, it encourages a monopolistic tendency and a lethargistic attitude and behavior on the part of existing enterprises. A resultant sellers' market condition taxes the consumer, who is obligated to pay higher prices for poorer quality goods. Such market conditions are rampant, not only in India, but also in many other developing countries where competition and imports are restricted.

We will briefly examine some dual results of the Indian restrictive foreign investment policy.

Indigenous Development and Growth of Technology

During the last 39 years, since her Independence in 1947, India has made rapid strides into different sectors of the economy through the process of planned economic developmental strategies. The agricultural sector has undergone a revolutionary change. The production of food grains has increased from 51 million tons during 1950 to 152 million tons during 1983 to 1984. She has not only achieved self-sufficiency in food grains and agricultural raw materials, but is now exporting sizeable amounts.

Broad-Based and Diversified Industrial Development

In the field of industrial production, with accent on basic, heavy and machine building industries, a firm foundation has been laid for a modern and diversified industrial structure, resulting in a significant change in the pattern of industrial production from traditional to non-traditional items. The country has now achieved near self-sufficiency in the manufacture of consumer goods while most of its requirements of machinery and equipment are also met by the local industry.

The diversification of India's industrial production has resulted in a significant change in the composition of her foreign trade. India has ceased to be an exporter of agricultural and other primary products. She has emerged as a large exporter of manufactured products which include not only consumer durables like refrigerators, air conditioners, bicycles, sewing machines, electric fans, etc., but also sophisticated capital equipment like cement and sugar plants, textile machinery, thermal power plants, blast furnaces chemicals and pharmaceuticals. The manufactured products now constitute over 50 percent of India's total exports. Indian manufactured goods are exported not only to the developing countries but to a large number of developed countries as well.

Development of Science and Technology

Apart from building up a modern and diversified industrial structure, India has also made significant progress in developing capabilities for design and process know-how. While in the initial stages she had to depend mainly on the import of technology from the developed countries, a great deal of attention has also been paid on the development of science and technology within the country. About 1300 research and development institutions employing over a million persons are working under the Central and the State Governments. Nearly 3000 patents developed by Indian nationals are being commercially exploited. The National Research and Development Corporation (NRDC) which licenses the patents of processes developed by the Government owned and controlled institutions in the country has so far licensed more than 1000 processes half of which have been commercialized. Some of these have been licensed to users in other countries. The total value of goods produced from the processes licensed by NRDC has gone up from Rs. 3 million in 1960-61 to Rs. 1200 million in 1983.¹⁴

Recently, the Asian Wall Street Journal reported that the "Foreign Companies Create a High-tech Haven in Bangalore (India)." Many major computer and electronics companies like Texas Instruments, the Hewlett-Packard Co., Data General, N.V. Phillips, LM Erickson, Telefon AB all are attracted to Bangalore to take advantage of highly-skilled Indian scientists and technicians. All these companies are coming to India to serve the world market. Besides the multinationals, an increasing number of American-educated Indians, who had been working in the Silicon Valley (U.S.A.), are returning home to set up computer companies.

In a reversal of the traditional technology-transfer roles, many companies in Bangalore are now providing needed software technology to the industrialized countries. For example, PSI recently helped design and develop a specialized computer for a Japanese company, the Software Consultant Corporation.¹⁵

Development of Brain Power

India boasts the following achievements in development of manpower skills and technical institutions.

- . Total Scientific and technical manpower: 2.5 million
- . Industrial training institutes: annual admission over 160,000
- . 150 engineering colleges: annual admission over 25,000
- . 80 post graduate engineering and technical colleges: annual admissions over 6,000
- . 100 universities and 4,000 colleges with 3 million students
- . 1.25 million engineering degree holders
- . Polytechnic institutes for diploma courses
- . 30 institutions offer management courses
- . R&D work is carried out in over 900 organizations employing one million persons
- . Training in all industrial establishments to impart technical skills is mandatory under the law.

Figure 2 summarizes major achievements in agriculture and the industrial sectors during the last three decades.

SELLING TECHNOLOGY OVERSEAS

Another measure of achievement can be seen from the outflow of Indian technology and investment overseas.

Indian companies have established approximately 237 joint ventures in 38 countries. A breakdown of the Indian joint ventures is given in Tables 3 and 4.

The Indian joint ventures abroad cover a very wide spectrum of industrial products, ranging from consumer goods to heavy engineering products. Some of these items are: textile, light engineering goods, iron and steel products, automobile ancillaries, machine tools, hand tools, instruments, commercial vehicles, scooters, heavy engineering projects, non-ferrous metal products, chemicals and pharmaceuticals, plastic products, cement, glass and glassware, pulp and paper, sugar, processed foods, confectionary, beverages, oilseeds crushing and refining, hard board, mosaic tiles, rubber products, leather products, cables and conductors, electronics, hotels and restaurants, consultancy and construction projects and the like.

Project export is another form of transfer of technology. Indian enterprises have successfully completed a large number of projects in diverse fields in several developing countries such as Libya, Kuwait, UAE, Iraq, Nigeria, Tanzania, Mauritius, Thailand, and Malaysia. The areas covered include power plants, sugar, textiles, cement, paper and pulp, metallurgical and engineering industries, chemical and pharmaceutical plants, etc. These projects have been set up by Indian enterprises in the face of stiff competition. Many of them have been financed by international financing institutions like the World Bank and Asian Development Bank.¹⁶

To sum up, the possible impact of the restrictive Indian foreign investment policy is rather impressive. In other words, as Sanjay Lall's comparative study of multinationals from developing countries shows:

"India's inward-looking, protectionist, self-reliant strategy has given it a strong and diversified base in many manufacturing technologies....whatever the other effects of inward-looking, protectionist industrialization strategy, there is little doubt that they foster technological capabilities over a broad range of industries."¹⁷

The Negative Impact

On the other hand, the restrictive foreign investment policy has not only created monopolistic market conditions in India but also brought

about stagnation in technological development. It has also created vast inefficiencies in existing enterprises. To quote Sanjay Lall again,

.."large areas of Indian industry lag behind world frontiers in technology...managerial and marketing skills are not developed....large areas of industry remain high-cost and technologically backward by world standards. Export growth is significantly restricted."¹⁸

A recent study on the impact of technology conducted by the Economic and Scientific Foundation in New Delhi, shows that considering the requirements, the import of technology into India is insignificant. For example, India's payments for technology during 1976-77 were only U.S. \$67 million as compared to U.S. \$272 million by Brazil; \$101 million by Argentina; \$167 million by Mexico; \$866 million by West Germany; \$821 million by France; and \$72 million by Japan. Besides the 5,500 collaboration agreements concluded between 1957 to 1979, the technology payments were less than one percent of the world's total payments during 1976-77. India's share in international direct investment is merely 0.69 percent of the world's total.¹⁹

A recent listing of technological needs illustrates the nature of the technological stagnation prevailing in India today (see Fig. 4).

The Birth of a New Policy

Realizing the critical technological need of the country, Prime Minister Rajiv Gandhi began to liberalize the industrial and foreign investment policies. The main elements of liberalization of these policies are given below.

- . License exemption for 25 industries
- . A higher investment limit for small and ancillary units, with an increase from Rs. 2 million to Rs. 3.5 million and Rs. 2.5 million to Rs. 4.5 million, respectively
- . Raising the limit of fixed assets, from Rs. 200 million to Rs. 100 million for companies covered under the Monopolies Act.
- . Broad banding of licenses for electronic items such as entertainment electronics, electronic toys, computer peripherals, electronic testing and measuring equipment and discrete semi conductor devices. This facility also extends to sectors such as Chemical machinery, Machine tools, Two Wheelers and other vehicles.
- . Permission for the private sector to participate in the field of tele-communication equipment
- . Withdrawal of a number of electronic items from the purview of the Monopolies Act; enabling larger houses to set up industries in these areas
- . Permission to foreign companies and large houses for manufacture of electronic components.
- . Withdrawal of capacity constraints for the manufacture of entertainment and professional electronic equipment, and computers

- Permission for the manufacture of micro/mini computers such as personal computers by any Indian company
- Classification of software development and manufacturing as "industry"
- Policy relating to import-export for a period of 3 years
- Exemption from license for actual users for the import of 201 items of capital goods
- Decanalization of a large number of items
- Increase in value limit for import of technology, know-how and machinery under Technical Development Fund, from Rs. 0.5 million to Rs. 10 million
- Import liberalization of computer system. No license is required for systems costing less than Rs. 10 million
- Greater power to Regional Licensing Authority for clearing of applications

FISCAL INCENTIVES

- Reduction by 5 percent in the basic rate of income tax on companies from 1.4.85
- With yet another 5 percent reduction from April 1986
- Abolition of surcharge and surtax from April 1987.
- Increase in the exemption limit for personal income tax from Rs. 15,000 to Rs. 18,000
- Extension of tax holiday concession to 5 more years for all new units
- Reduction of custom duty on project imports from 65 percent to 45 percent
- Withdrawal of custom duty on equipment for fertilizer projects
- No duty on import of pulp and wood chips
- Reduction in import duty for power projects to 25 percent.²⁰

REACTIONS TO THE NEW POLICY

Overall, response from the foreign companies has been positive. Particularly, Japanese and European companies have shown eagerness to cash in on India's new open-door policy. Here are some possible results:

- Japan's Suzuki Motor Co. is investing \$70 million to secure 25 percent equity in the nationalized automobile company
- Chevron International Oil Co. has agreed to invest \$27 million for oil exploration
- All major Japanese automobile companies (Toyota, Honda, Nissan, Suzuki) have invested huge sums to manufacture cars, motorcycles, and trucks in India
- Major European governments have shown willingness to subsidize financing for the purchase of jet planes, industrial machinery, and other capital goods
- In a few years, the Indian consumers will be given opportunities to purchase new automobiles with sleeker bodies, powerful engines, front-wheel drive transmission, power-assisted steering, and automatic gears.²¹

To sum up, the competition already seems to be yielding results. Prices are falling, product brands are multiplying, markets are expanding. Computers, television sets, electronic typewriters, and even hotel rooms are getting cheaper. As the Business India, a premier business weekly, writes, "For the first time since Independence, the customer has begun to feel that he is wanted. As the race clearly gathers momentum, the laggards are being left behind."²²

A Negative Reaction

On the other hand, local Indian businessmen and industrialists have shown mixed reactions to this new "open door" policy. Although welcoming liberal import and foreign investment policies, they worry about bankruptcies and deaths of inefficient local companies. On one hand, they are stating that the industry as well as the government must accept the bankruptcies as a logical part of competition. On the other hand, they are warning that the purpose of liberalization should not be to hand over large areas of industry to the multinationals.²³

Too Soon to Tell

It is not clear whether the Indian industrialists and public enterprises will take this new era in the Indian economic scene in good strides and learn to live with it or fight back through political lobbying and corruption. If they choose the second route, it is not clear whether Rajiv Gandhi will be powerful enough to win and implement his new trade and investment policies. It is too soon to tell. However, one thing is clear, India is finally preparing to move into the 21st Century.

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Table 1

Foreign Private Investment through Collaborations
Approved 1970-1984

Year	Number			Foreign Investment (Rs. million)
	Total	Technical	Technical cum Financial	
1970	183	151	52	24.5
1971	245	199	46	58.4
1972	257	220	37	62.2
1973	265	231	34	28.2
1974	359	304	55	67.1
1975	271	231	40	32.1
1976	277	238	39	72.7
1977	267	240	27	40.0
1978	307	263	44	94.1
1979	267	235	32	56.4
1980	526	453	73	89.2
1981	389	232	57	108.7
1982	590	477	113	628.1
1983	673	544	129	618.73
1984	752	601	151	1130.02

Source: Indian Investment Center: Partners in Progress, 1960-1985,
New Delhi, India.

Table 2

Sources of Foreign Capital in India

Country	Percentage of total investment (as of Sep. 1985)
United Kingdom	21.2
United States	19.7
Federal Republic of Germany (West Germany)	18.0
Japan	8.7
Switzerland	5.8
France	5.0
Italy	3.9
Others	<u>17.7</u>
Total	100.0

Source: India and Japan: A Retrospect and Prospects, for Bilateral and Economic Cooperation, Indian Investment Center, New Delhi, India, 1985, pp. 58-59.

Table 3

Indian Joint Ventures Abroad, Countrywise
(as of 1.1.1985)

Region/Country	In Production	Under Implemen- tation	Total	Region/Country	In Production	Under Implemen- tation	Total
1	2	3	4	1	2	3	4
South Asia				Europe			
1. Bangladesh	1	-	1	1. Cyprus	-	1	1
2. Nepal	2	9	11	2. F.R.G.	2	-	2
3. Sri Lanka	<u>14</u>	<u>12</u>	<u>26</u>	3. France	1	-	1
Subtotal	<u>17</u>	<u>21</u>	<u>38</u>	4. Gibraltar	1	-	1
West Asia				5. Greece	-	2	2
1. Bahrain	1	1	2	6. Netherlands	1	-	1
2. Kuwait	1	1	2	7. Switzerland	1	1	2
3. Oman	2	-	2	8. U.K.	9	6	15
4. Saudi Arabia	3	5	8	9. Yugoslavia	<u>1</u>	-	<u>1</u>
5. U.A.E.	<u>9</u>	-	<u>9</u>	Subtotal	<u>16</u>	<u>10</u>	<u>26</u>
Subtotal	<u>16</u>	<u>7</u>	<u>23</u>	Oceania			
Africa				1. Australia	1	-	1
1. Botswana	1	-	1	2. Fiji	1	-	1
2. Egypt	-	2	2	3. Tonga	1	-	1
3. Kenya	9	4	13	4. Solomon			
4. Liberia	-	1	1	Island	-	<u>1</u>	<u>1</u>
5. Mauritius	2	1	3	Subtotal	<u>3</u>	<u>1</u>	<u>4</u>
6. Nigeria	14	9	23	America			
7. Senegal	-	1	1	1. USA	<u>11</u>	<u>1</u>	<u>12</u>
8. Seychelles	-	1	1	Subtotal	<u>11</u>	<u>1</u>	<u>12</u>
9. Tanzania	-	1	1	GRAND			
10. Uganda	1	-	1	TOTAL	<u>159</u>	<u>78</u>	<u>237</u>
11. Zambia	-	<u>1</u>	<u>1</u>				
Subtotal	<u>27</u>	<u>21</u>	<u>48</u>				

Source: Indian Investment Center: Partners in Progress, New Delhi, India, 1985

Table 4

Indian Joint Ventures Abroad: Industry-Wise
(as on 1.1.1985)

	Number		
	Total	In Production	Under Implementation
1. Light Engineering	39	30	9
2. Chemical & Pharmaceuticals	31	15	16
3. Textile & Allied Products	21	19	2
4. Oil seeds crushing & Palm oil refining	10	9	1
5. Iron & Steel Products	9	8	1
6. Pulp & Paper	4	3	1
7. Glass & its products	5	4	1
8. Food products	1	-	1
9. Commercial vehicles	3	1	2
10. Leather & Rubber Products	6	3	3
11. Cement Products	2	1	1
12. Manufacturing & others	16	9	7
13. Trading & Marketing	21	17	4
14. Hotel & Restaurant	26	16	10
15. Engg. contracts & construction	11	5	6
16. Consultancies	10	5	5
17. Other non-manufacturing	22	14	8
	<u>237</u>	<u>159</u>	<u>78</u>

Source: Indian Investment Center: Partners in Progress, New Delhi, India, 1985.

Figure 1

SALIENT FEATURES OF THE CURRENT INDIAN FOREIGN INVESTMENT POLICY

Foreign Ownership:

The foreign equity or foreign ownership is restricted to the level of 40 percent but this can go up to 100 percent with the choice of product, the level of exports and the location of the unit. The Government provides specific facilities for export-oriented units.

Units in Free Trade Zones:

Government allows foreign majority ownership to units in India's 6 free trade zones located at Bombay, Kandla, Madras, Cochin, Falta and Noida. Units located in these zones are completely exempt from income tax for an initial period of 5 years. These units also remain exempt from all other direct and indirect taxes. These units are also allowed to sell up to 25 percent of their production to valid import license holders in the domestic tariff area. These units are allowed to import their capital goods, raw material and components, etc., free of all duties. The only requirement is that the value added component should not be less than 30 percent.

100% Export-Oriented Units:

These units can be set up anywhere in India. They enjoy virtually all the facilities provided to the units located in the free trade zones except that they are not allowed an initial 5 years tax holiday. In turn, they are allowed a number of other incentives admissible to other exporting units.

Nationalization:

India does not nationalize just for the sake of nationalization. When it becomes imperative in the public interest only then nationalization is resorted to and that too on a very selective basis. Last time when leading Indian banks were nationalized, the foreign banks were not disturbed and they continue to operate even today on an increasing scale.

Remittances:

Government of India freely allows the remittance of income on account of dividend and interest after payment of Indian taxes.

Repatriation:

Apart from the regular periodic remittance of income on foreign investment, the Government freely allows the repatriation of the initial capital in the original currency. The appreciation on capital, if any, is also allowed to be repatriated after the payment of taxes.

Royalty:

Royalty is generally allowed 3 to 5 percent on domestic sales. The royalty is worked out on the internationally accepted formula, i.e., the ex-factory value of production minus bought out and imported components, raw-material, etc. Higher rates of royalty are permissible on exports and products involving import of sophisticated technology.

Figure 1 (cont'd.)

Lump sum Fee:

Lump sum payment, in addition to the recurring royalty is considered for the import of drawings, documentation, and other forms of know-how. Reasonableness of such payments is decided on the basis of the value of production, based on the technology imported.

Dividend:

Dividend is paid to the equity holders out of the total profits after allowing for taxes. Dividend on shares, whose value does not exceed Rs. 500,000 or 25 percent of total issued equity capital, can be remitted without the prior approval of the Reserve Bank of India. It is only for the repatriation of the dividends not covered by the above provisions and repatriation of equity capital and appreciation on it, if any, that approval of Reserve Bank is required.

Duration of Agreement:

Collaboration agreements are approved normally for a period of five years from the date of agreement or five years from the commencement of production, provided production is not delayed for a period of 3 years from the date of signing of the agreement (i.e., a maximum of eight years from the date of signing of the agreement).

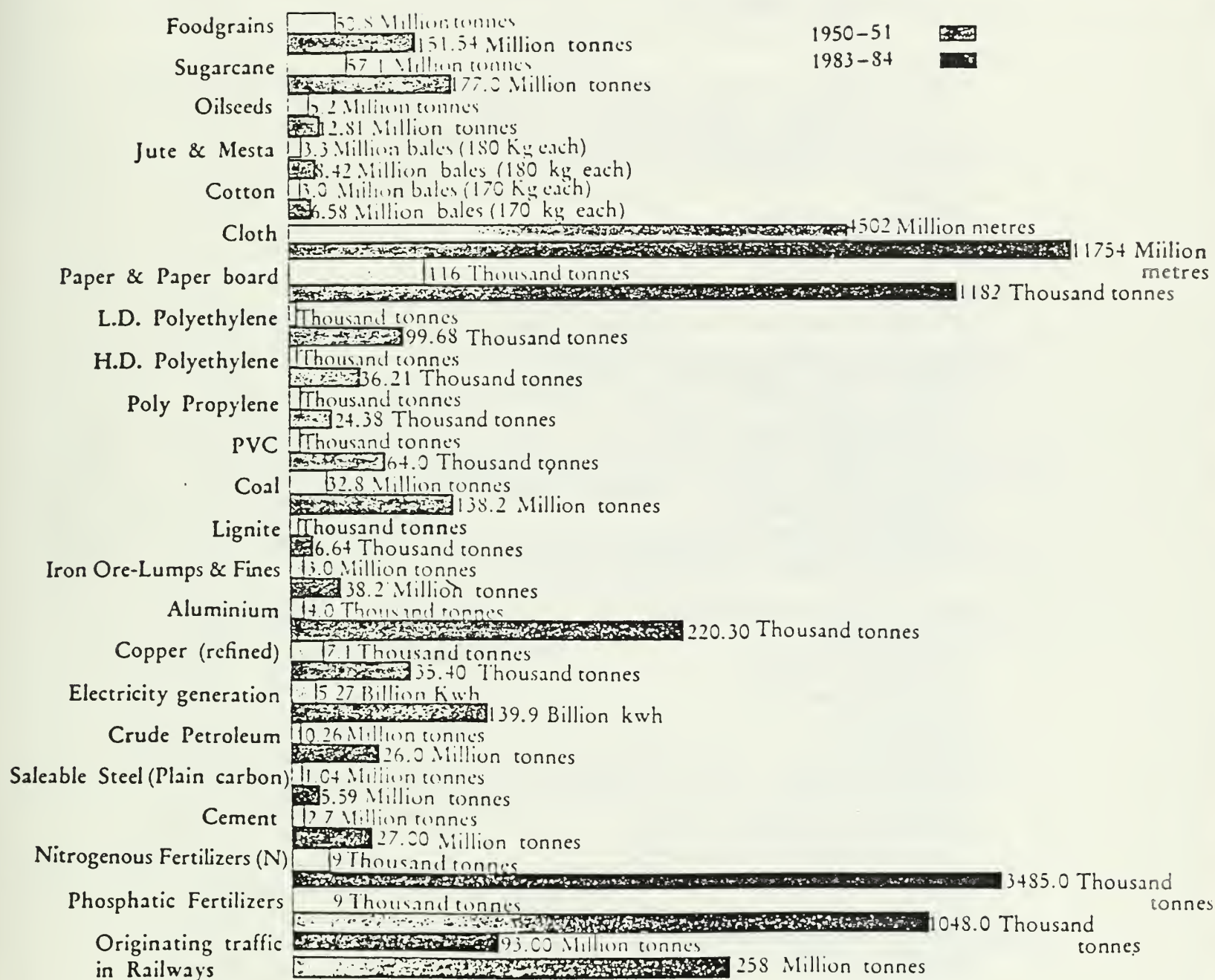
Sub-licensing:

The Government expects that the technical collaboration agreement should generally not prohibit sub-licensing of the know-how, product design/engineering design under the agreement to other Indian parties. Such sub-licensing, when it becomes necessary, is subject to terms to be mutually agreed to by all parties concerned including foreign collaborator and the approval of the Government.¹²

Source: Indian Investment Center: Partners in Progress, 1960-1985,
New Delhi, India, 1985.

Figure 2

Three Decades of Achievement: 1950-51 to 1983-84



Source: Indian Investment Center: Partners In Progress, 1960-1985, New Delhi, India, 1985.

Figure 4

Areas for Collaborations

ILLUSTRATIVE LIST

A. ENGINEERING INDUSTRIES

Metallurgical

Razor blades strips, High tensile strapping strips, High tensile steel strips, claded steel strips;
Steel castings (upgradation of technology);
Close die special steel forgings;
Nickel;
Titanium metals;
Sponge-Magnesium metals.

Prime Movers

Kerosene engines for outboard boats electrical industry;
Electric motors (special types only);
Cross linked power cable (XLPE);
Power capacitors for power factor improvement;
Power protection relays;
Low tension circuit breakers (sophisticated design);
High tension circuit breakers (upgrading);
Tungsten filaments;
Motor starters and contactors;
Welding electrodes (special purpose).

Automobile Ancillaries

Air brakes;
Delivery valves;
Flywheel magnetos;
Head lamps;
Pistons;
Piston pins;
Hydraulic brake and assembly (upgrading);
Inlet and exhaust valves;
Fuel injection equipment;
Shock absorbers;
Multi cylinder fuel injection pumps;
Single cylinder pumps;
Nozzle holders;
Nozzles;
Steering gears;
Tie rod ends;
Wiper motors;
Flywheel ring gears.

Industrial Machinery

Boilers and steam generating equipment (waste heat boiler for fertilizers);

Figure 4 (cont'd.)

Cement mill machinery (specialized type above 3000 TPD);
Rayon and synthetic fibre machinery (specialized type machinery);
Chemical and pharmaceutical machinery (specialized items like
glass equipment, storage cryogenic applications, effluent
treatment plants and specialized pharmaceutical machinery);
Dairy equipment (specialized items);
Coal and other mining machinery (specialized items);
Food processing machinery (specialized equipment);
Gas cutting and welding equipment;
Packaging machinery (specialized items);
Leather and footwear machinery (specialized items);
Paper and pulp machinery (chip washers, wood grinders, refiners,
dandy rolls, MG cylinders, slitters; rewinders, etc.);
Ceramic machinery (specialized type);
Air pollution control equipment;
Tea machinery (specialized items like the machinery for making
instant tea, tea bag making machinery, etc.);
Printing machinery (specialized items);
Rubber machinery (specialized items);
Textile machinery (sophisticated woollen/worsted spinning machi-
nery such as woollen combers, worsted cords, super speed gil
boxes, etc.);
Air and gas compressors (like specialized high pressure
compressors for process industries, oil free compact compressor
for instrumentation and allied applications, diaphragm air
compressor, etc.);
Power driven pumps (for nuclear application, for handling petro-
leum, crude and refined products and high vacuum pumps);
Heat treatment furnaces (specialized type);
Industrial sewing machines;
Modern flour milling machinery;
Heavy duty industrial valves.

Commercial Office and House-Hold Equipment

Domestic refrigerators (certain specialized components such as
compressors, glassmatic terminals, etc.);
Electronic typewriters.

Misc. Mechanical and Equipment Industries

Grinding wheels (bonded abrasives);
Cutting tools (gear cutting tools and other specialized tools);
Safety razor blades (single track and plastic-bonded type blades);
Tungsten carbide tipped tools;
Precision laboratory balances;
Dental X-ray equipment;
Anti friction bearings (special type namely deep groove multirow
bearings, angular contact ball bearings, combined ball and
cylindrical roller bearings, high precision heavy duty bearings,
miniature bearings and roller bearings for special
applications);
Needle roller bearings;

Figure 4 (cont'd.)

Wrist watches mechanical and components;
Fishing trawler accessories;
Alternative energy system.

Machine Tools

Turning machines;
Drilling machines;
Milling machines;
Grinding machines;
Boring machines;
Threading machines;
Shaping and slotting machines;
Gear cutting generating finishing and testing machines;
Honing and polishing machines;
Wire working machines;
Hammers and forging machines;
Presses and sheet metal working machinery.

Others

Leaf spring manufacturing machines;
Chain making machines;
Machines for the manufacture of zip fasteners;
Machines for the manufacture of needles and pins;
Impact extrusion press for manufacturing of collapsible tube;
Specialized machinery required for manufacture of nuts and bolts,
e.g., cold header, nut tapper, trimmer, reciprocating die type
threading and pointing machines, etc.;
Fluorescent tube making machinery;
Wood working machinery.

B. NON-ENGINEERING INDUSTRIES

Fertilizers

Fertilizer based on natural gas.

Inorganic Chemicals

Hydrogen peroxide.

Organic Chemicals

Acetone;
Phenol;
Cyanuric chloride;
Toluene dilsocyanate;
Polyols;
Xylos;
Benzaldehyde;
Tartaric acid (food grade);
Cellulose acetate butyrate;
Acetal.

Figure 4 (cont'd.)

Miscellaneous Chemicals

Leather auxiliaries;
Acetylene black;
Special ion-exchange resins.

Drugs and Pharmaceuticals

Selected drugs and pharmaceuticals;
Bio-technology relevant to food chemistry and drugs.

Man Made Fibre

Polynosic fibre;
Polyester fibre through continuous polymerisation and direct spinning process;
Spandex fibre/yarn.

Paints

Power paints, speciality paints.

Dyes

Selected dyes and dye intermediates.

Paper

Specialty paper like insulation paper (electrical), base paper for laminated and cigarette tissue paper.

Rubber Products

Steel reinforced rubber conveyor belts;
Radial tires;
Contraceptives;
Thread (heat resistant type).

Glass and Glass Products

Ophthalmic and optical glasses;
Float glass;
Laboratory glassware.

Engineering and Plastic and Resins

PTFE (Polytetrafluorethylene);
Polycarbonate;
PTFCE (Polytrifluorchlorethylene);
FEP (Fluoro Ethylene Propylene Copolymer);
PFA (Perfluoroalkoxy);
Fluoroelastomers;
TFE (Trifluorethylene).

Synthetic Rubber

Nitrile;
Butyl;
Isoprene.

Figure 4 (cont'd.)

Floculant

Polyacrylamide.

Others

Dimethyl Terephthalate (DMT);

Caprolactam;

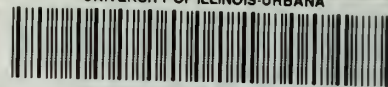
Refractories like monolithics, electrocast, magnesite from sea water, fused grains of magnesite, alumina, etc.;

H.T. insulators and bushings and solid core insulators for railways;

Industrial catalyts.

Source: India and Japan: A Restrospect and Prospects for Bilateral Economic Cooperation, Indian Investment Center, New Delhi, India, 1985, pp. 50-57.

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