

What India's MPs Want to Know About Foreign Direct Investment

An Analysis of Written FDI Questions in Parliament (2 July 2009–21 February 2014)

ENHANCING THE SCOPE AND QUALITY OF INDIAN FDI STATISTICS: POLICY BRIEF

No. 1, MARCH 2015

About the Project

India ranks among the world's 15 largest recipients of foreign direct investment (FDI), and the Indian Government is prioritising FDI as a key driver for economic growth, employment and global competitiveness. For this reason, it is crucial to ensure that Indian policy makers have both a thorough and holistic view of India's FDI flows and their economic contribution. Detailed, robust and easily accessible FDI data is fundamental to this insight.

Against this backdrop, NCAER's *Enhancing the Scope and Quality of Indian FDI Statistics* project has sought to determine the FDI data needs of Indian policy makers and experts who examine FDI's distribution and impact in the country, so as to identify major gaps and suggest solutions. It has also examined evolving international best practices in FDI statistics collection, analysis and reporting, and in assessing the economic contribution of FDI.

This project has been supported by a grant from the UK Prosperity Fund, whose assistance is gratefully acknowledged.

Abstract

This note summarises the findings from NCAER's analysis of the written questions on FDI that Members of Parliament (MPs) submitted in Parliament between 2 July 2009 and 21 February 2014. While the purpose of this analysis was to understand the types of FDI-related information MPs typically seek when considering FDI issues in Parliament, it revealed gaps in the data available with Government to answer such questions. Most notable among these is the lack of state-specific FDI data, a comprehensive listing of foreign investors, and information about their employment and economic impact in India.

STUDY OBJECTIVE

With the Government's 'Make in India' and FDI liberalisation programmes drawing interest from international investors, India's FDI inflow seems poised to grow. For this reason, the Indian Parliament - India's "highest office" - is likely to deliberate on an expanded range of FDI matters going forward, making it crucial for India's MPs to have the FDI data required to make informed decisions. In this context, NCAER examined the types of FDI-related questions that MPs asked in Parliament these past few years, to assess whether the Government has the data needed to answer these and where the gaps lie.

ANALYTICAL SAMPLE AND METHODOLOGY

Identifying the Questions

The sample was assembled through an exhaustive search for all FDI-related questions¹ on the Lok Sabha and Rajya Sabha websites,² using seventeen different search terms,³ for the period 2 July 2009 and 21 February 2014. The same methodology was used to find all relevant government assurances in the Ministry of Parliamentary Affairs' website.⁴ Once both duplicate questions and assurances were removed, we were left with 1,210 questions in the final sample.

About NCAER

NCAER, the National Council of Applied Economic Research, is India's oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru, to inform policy choices for both the public and private sectors. Over nearly six decades, NCAER has served the nation well with its rich offering of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of a few independent think-tanks world-wide that combines rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its Director-General, Dr Shekhar Shah, and governed by an independent Governing Body, chaired by Mr Nandan M. Nilekani.

Macro Analysis and Classification

A thorough examination of these 1,210 questions showed recurring themes and patterns, on the basis of which they were classified into the following broad categories: sector-centric questions versus those about India's FDI regime in general, and sub-queries asking for FDI policy, data and impact in India. These three categories of sub-queries often appeared together in a single question.

Micro-Analysis of Query Content

Sector-centric questions were classified by target sector, while the specific content of Policy, Data and Impact sub-queries was captured using summary keywords, developed by reading through the questions and observing commonalities. A total of 81, 94, and 22 keywords, respectively, were used to capture the content of Policy, Data and Impact Queries.

Analysis of Ministries' Responses to Questions

Once all questions and sub-queries had been thoroughly read, understood and labelled, Ministries' responses to these were carefully examined to identify data gaps and challenges. If a response presented all the information sought by the MP, it was classified 'Fully Answered'; if only some of the information, then 'Partially Answered'; and, if completely unanswered, then 'Unable to Answer'.

FINDINGS FROM THE ANALYSIS OF PARLIAMENT QUESTIONS

Focus by Ministry and Sector

Of the total sample, 29 per cent of questions were addressed to the Ministry of Commerce and Industry, and 16 per cent to the Ministry of Finance (Figure 1). The remaining 65 per cent were spread across 37 other ministries, led by Communications and Information Technology (5 per cent), Defence (4 per cent), Chemicals and Fertilizers (4 per cent).

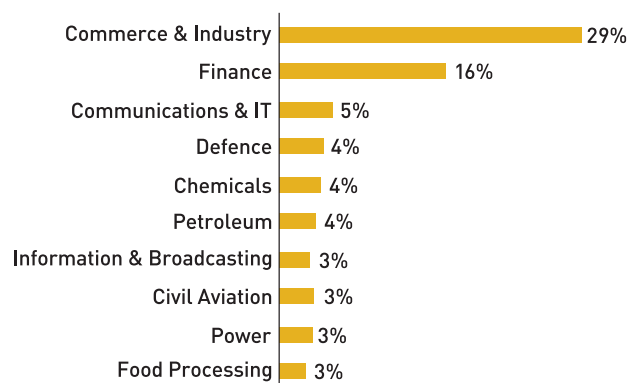
In 71 per cent of these questions, there was a specific focus on at least one sector (Figure 2). The remaining 29 per cent of questions had no sector focus, and were general queries about India's FDI flows and FDI regime. Within the sectors, retail dominated, not surprising in view of Lok Sabha XV's protracted debate about opening multi-brand retail to FDI. Other questions concentrated on pharmaceuticals, defence, telecommunications, and electricity.

Country Focus

Out of the total of 1,210 questions, 146 mentioned a specific country. In descending order, these were: China⁵ (38 questions), the United States (35 questions), Mauritius (16 questions), Pakistan (14 questions) and Japan (11 questions).

Figure 1: Which Ministries received FDI-related questions?

(Per cent of total 1,210 questions; 2 July 2009 to 21 February 2014)



Source: NCAER.

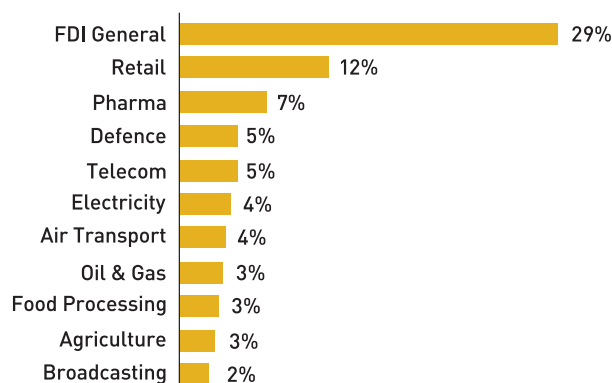
QUERY CONTENT

Policy Questions

As mentioned earlier, there was a considerable overlap between Policy, Data and Impact Queries within individual questions (Figure 3). However, policy-centric queries were predominant, with 86 per cent of the question sample containing at least one policy query, in which MPs asked Ministries to explain FDI rules or their decisions on FDI matters. These were classified policy questions.

Figure 2: Which Sectors Dominated FDI-Related Questions?

(Per cent of total 1,210 questions; 2 July 2009 to 21 February 2014)

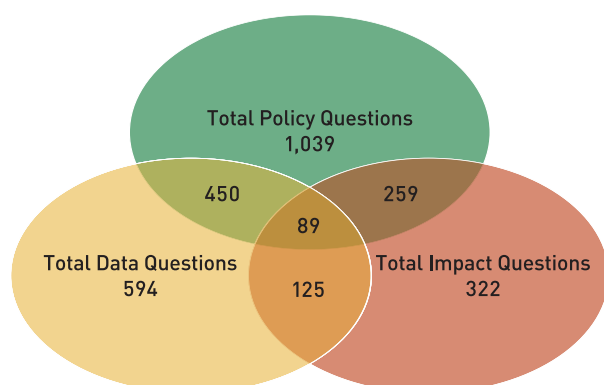


Source: NCAER.

1. This included all Starred, Unstarred and Supplementary questions.
2. The Lok Sabha website is www.loksabha.nic.in and www.rajyasabha.nic.in.
3. These were foreign direct investment (FDI), foreign investment, foreign companies, multinational companies (MNC), foreign investors, foreign firms, foreign enterprises, foreign entrepreneurs, foreign capital, foreign capital investment, foreign players, global players, global firms, global investors, and global companies.
4. The link to the Assurances section of the Ministry of Parliamentary Affairs' website is: <http://www.mpa.nic.in/MPA/link.aspx>.
5. National security themes tended to dominate these China questions.

Figure 3: Overlap Among Policy, Data and Impact Questions

(Number of questions in a total sample of 1,210 questions; 2 July 2009 to 21 February 2014)



Source: NCAER.

In terms of specific content, 31 per cent of these Policy Questions were asking Government if it was planning to review FDI regulation in sectors such as retail, pharmaceuticals, defence and air transport (Figure 4). 19 per cent asked whether it had adequately consulted local stakeholders on specific FDI reform proposals and what their reactions or objections had been; 13 per cent asked about the safeguards it had put in place to protect such stakeholders against any potentially negative fallout from expanded FDI. There was considerable interest in Government efforts to

attract FDI (18 per cent), as also to punish foreign firms violating Indian law (11 per cent).

Other questions focused on FDI rules, including the sectors in which FDI is permitted (12 per cent) and the relevant FDI cap (3 per cent); the investment terms (9 per cent) and incentives (5 per cent) for foreign investors; and Government measures to simplify FDI approvals (2 per cent). Many MPs also asked about the investment hurdles that challenge foreign firms (4 per cent).

Finally, MPs wanted an account of Government action on a variety of FDI matters (6 per cent), including FDI proposals, contracts, and tenders (5 per cent), protecting national security interests (5 per cent), and setting targets for FDI inflows (2 per cent).

Data Questions

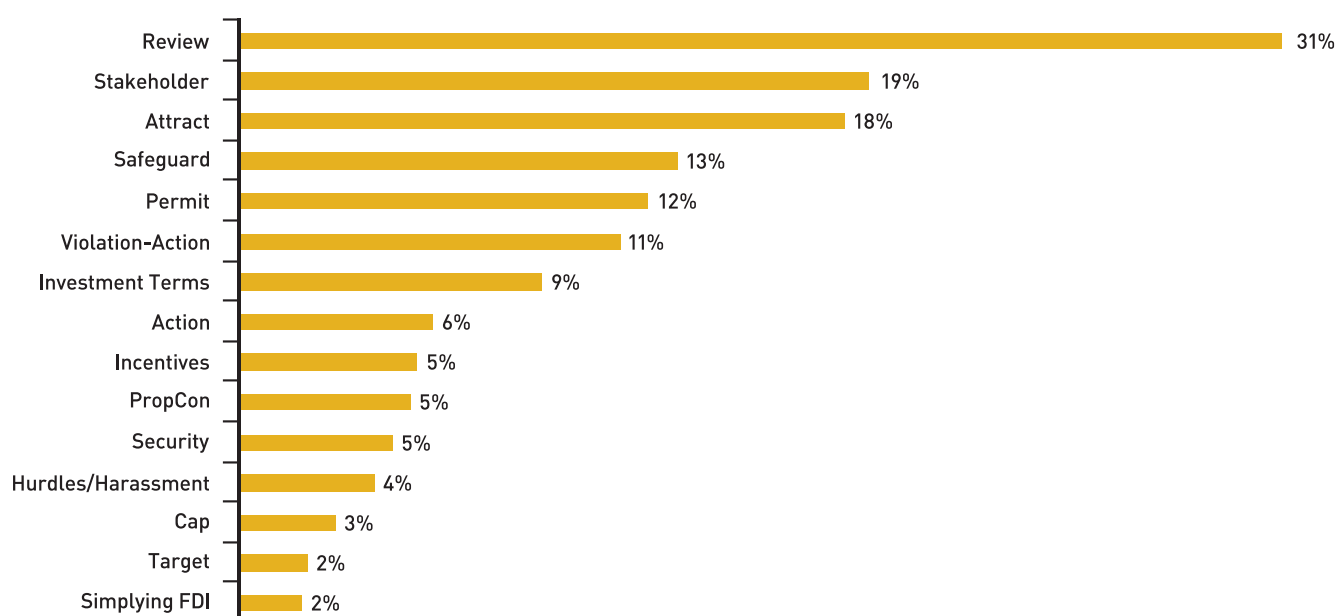
In 594 of the total sample of 1,210 questions – classified as ‘Data Questions’ – MPs posed at least one query asking for data on FDI activity in the country.

In 49 per cent of these 594 Data Questions (Figure 5 overleaf), there were queries regarding the quantum of India’s FDI inflow and outflow, and its sector and region-wise source and distribution. There was also a clutch of queries on the quantum and nature of Non-Resident Indian (NRI) investment in the country. A few others sought a projection of future FDI inflows.

In 29 per cent of Data Questions, MPs asked for the numbers of FDI proposals or contracts submitted, approved or cancelled, as also for details of resulting projects (10 per cent). In another 29 per cent of Data Questions, they asked for details

Figure 4: Dominant Policy Queries

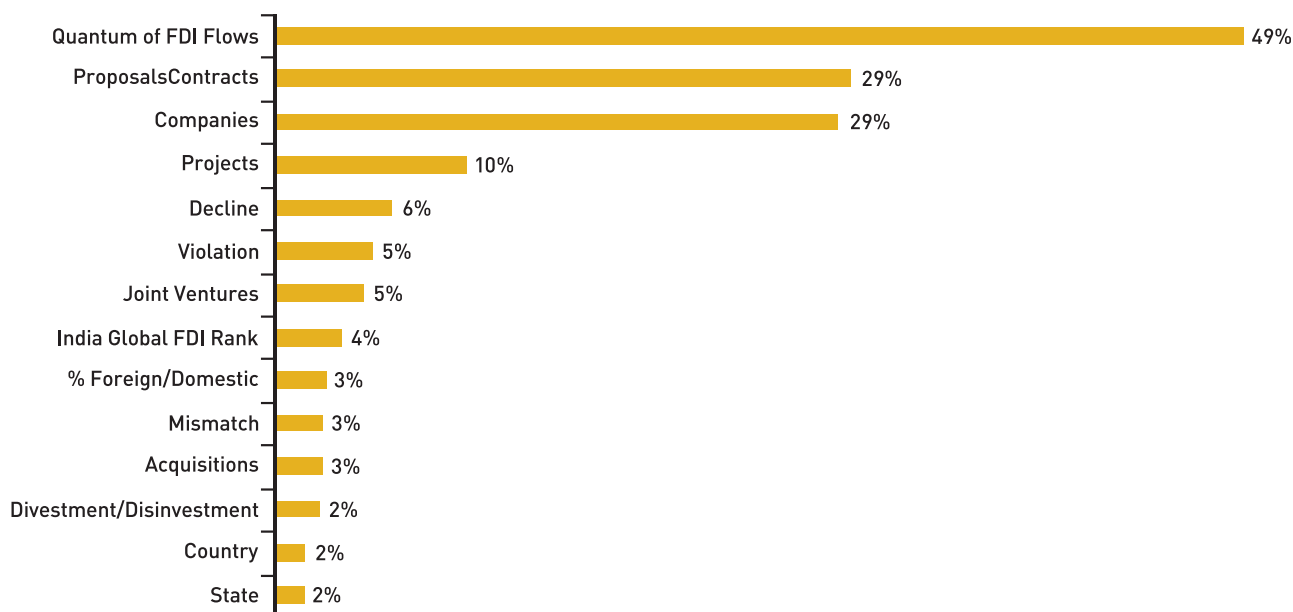
(Per cent of times mentioned in total of 1,039 Policy Questions; 2 July 2009 to 21 February 2014)



Source: NCAER.

Figure 5: Dominant Data Queries

(Per cent of times mentioned in total of 594 Data Questions; 2 July 2009 to 21 February 2014)



Source: NCAER.

about foreign direct investors in India, including name, investment size, and the number of firms operating in particular states and sectors.

In the remaining questions, MPs asked whether India's FDI inflow is declining (6 per cent); which foreign firms have violated Indian law (5 per cent); for the details of foreign joint ventures (5 per cent); for India's relative rank in global FDI flows (4 per cent); for foreign firms' share investment, production and market share in key sectors or projects (3 per cent); for information on foreign take-over of Indian firms (3 per cent); and divestments and disinvestments by foreign firms (2 per cent each). MPs also asked whether there was a mismatch between India's approved and actual FDI inflow (3 per cent), and how its FDI regime compares with that of global counterparts (2 per cent).

Impact Questions

In 322 of the total of 1,210 questions (27 per cent), MPs asked about FDI's effects, or likely effects, on particular stakeholders, sectors, or issues. These were categorised as 'Impact Questions'.

This group of questions was dominated by queries about FDI's impact on domestic industry (27 per cent) and the development of key sectors (17 per cent) (Figure 6 on p.5). In terms of sector focus, these two groups of queries concentrated on retail, pharmaceuticals, telecommunications, air transport, agriculture and food processing.

MP's also evinced considerable interest in knowing how specific changes in Government policy would affect FDI inflows

(12 per cent), what overall impact and benefits would accrue from FDI generally or in particular sectors (12 per cent); and how FDI was influencing key economic parameters, including growth, per capita incomes, inflation, the exchange rate, stock market prices, trade, enhanced competition and government revenue collection (11 per cent). Other questions related to FDI's actual or likely impact on employment (7 per cent); and on prices, especially in the pharmaceutical sector (5 per cent).

Some MPs also asked how FDI affects specific stakeholders, most notably how FDI in multi-brand retail and agriculture would impact retailers and traders (9 per cent), farmers (5 per cent), and consumers (3 per cent).

Finally, there were a handful of queries about the national security implications of permitting or liberalising FDI in defence, civil aviation, broadcasting, telecommunications and ports (3 per cent).

FINDINGS FROM GOVERNMENT RESPONSES

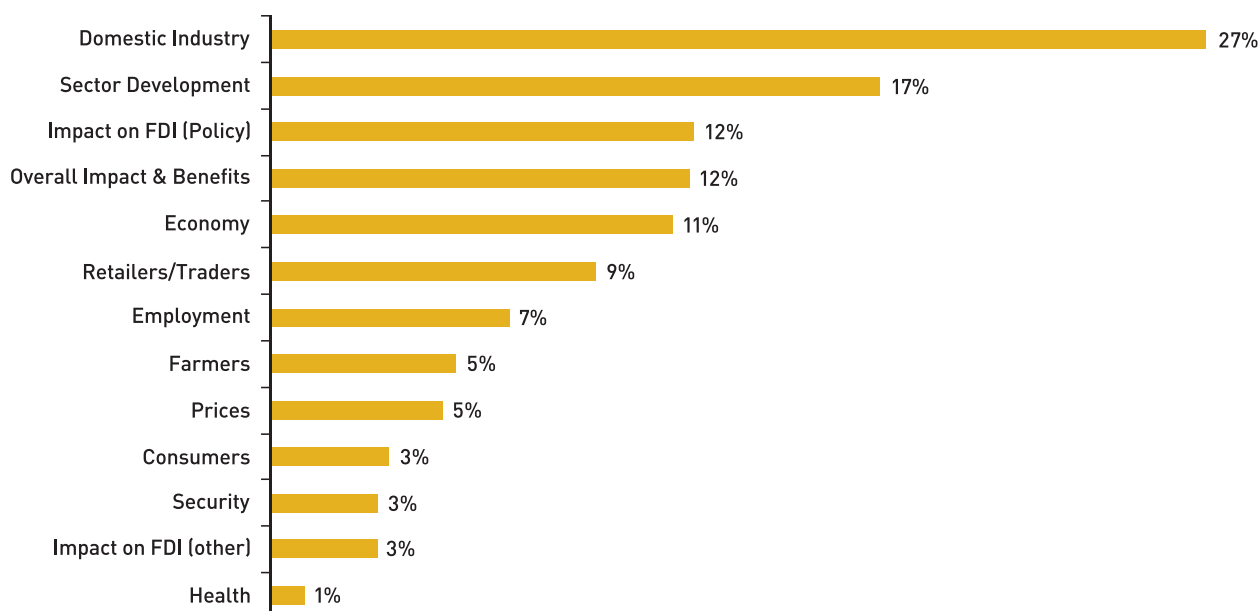
Of the 1,210 questions studied, it emerged that ministries were most successful in answering Policy Questions (81 per cent), but significantly less so in the case of Data Questions (58 per cent) and Impact Questions (39 per cent) (Figure 7). This was largely because they did not have the detail of information requested.

Policy Questions

Ministries fully answered over 90 per cent of queries in five of the top 15 policy segments (Figure 8 on p.6) and 80 per cent

Figure 6: Dominant Impact Queries

(Per cent of times mentioned in total of 322 Impact Questions; 2 July 2009 to 21 February 2014)



Source: NCAER.

or more of queries in another seven. However, most of these were extremely simple to answer, generally requiring just a “Yes” or “No” to score full marks. Among these were “Are you planning to review FDI policy?” (Review); “Is FDI permitted in this sector?” (Permit); and “Do you have a target for FDI inflows?” (Target).

Ministries performed less ably when answers needed to be more complex as, for example, in explaining the safeguards instituted to protect local stakeholders from the potentially negative fall-outs of FDI, and their reactions or objections to particular FDI reform proposals. For instance, the response to concerns that textiles FDI might displace weavers, artisans and other traditional workers was “100 per cent FDI under automatic route is permitted in textiles and apparel manufacturing sector and is therefore not monitored by the Government. FDI in textiles has happened mainly in the areas of technical textiles, cotton fabrics, garment and textiles machinery.”⁶

Data Questions

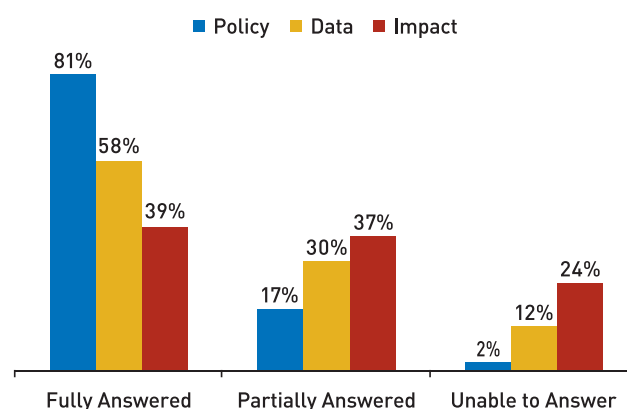
Ministries did best in answering questions about India’s global ranking in FDI flows by using data from UNCTAD’s World Investment Report series. They also answered 77 per cent of queries relating to FDI flows (Figure 9 on p.6), though they qualified that their data on state inflows might be inaccurate because they are compiled and reported “as per the receipts by the regional offices of the RBI in the country and

cannot be fully equated with State-wise inflows.”⁷ Ministries fully answered 84 per cent of the queries on FDI proposals and contracts.

On the other hand, Ministries fared worst in providing the specifics about FDI firms and projects, where they left 40 per cent of questions unanswered. While they could cite figures for

Figure 7: Analysis of Ministry Responses

(Per cent out of total number of Policy, Data and Impact Questions, respectively; 2 July 2009 to 21 February 2014)



Source: NCAER.

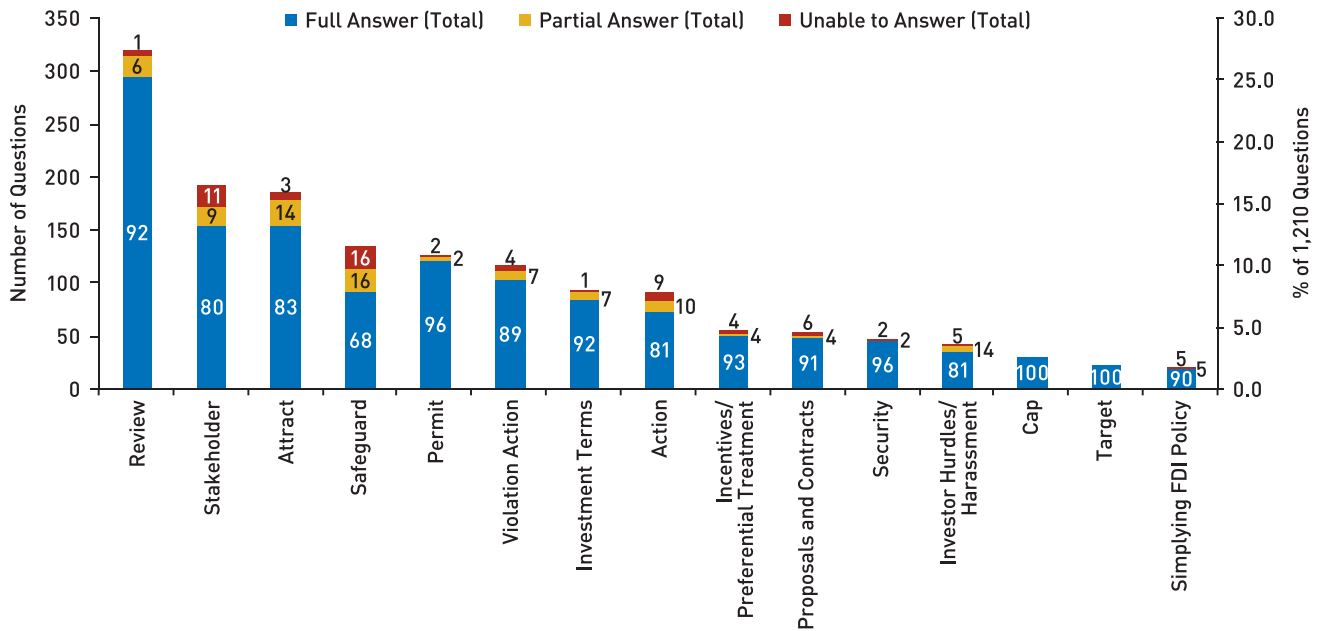
6. Lok Sabha, Unstarred Question No. 49, FDI in Textiles Sector, answered on 09.12.2013.

7. See, for example, Lok Sabha, Question No. 532, FDI Inflow, 26 November 2012.

8. 80 per cent of these queries were fully answered.

Figure 8: Responses to Policy Questions

(Per cent of Fully Answered, Partially Answered and Unable to Answer queries within each category)



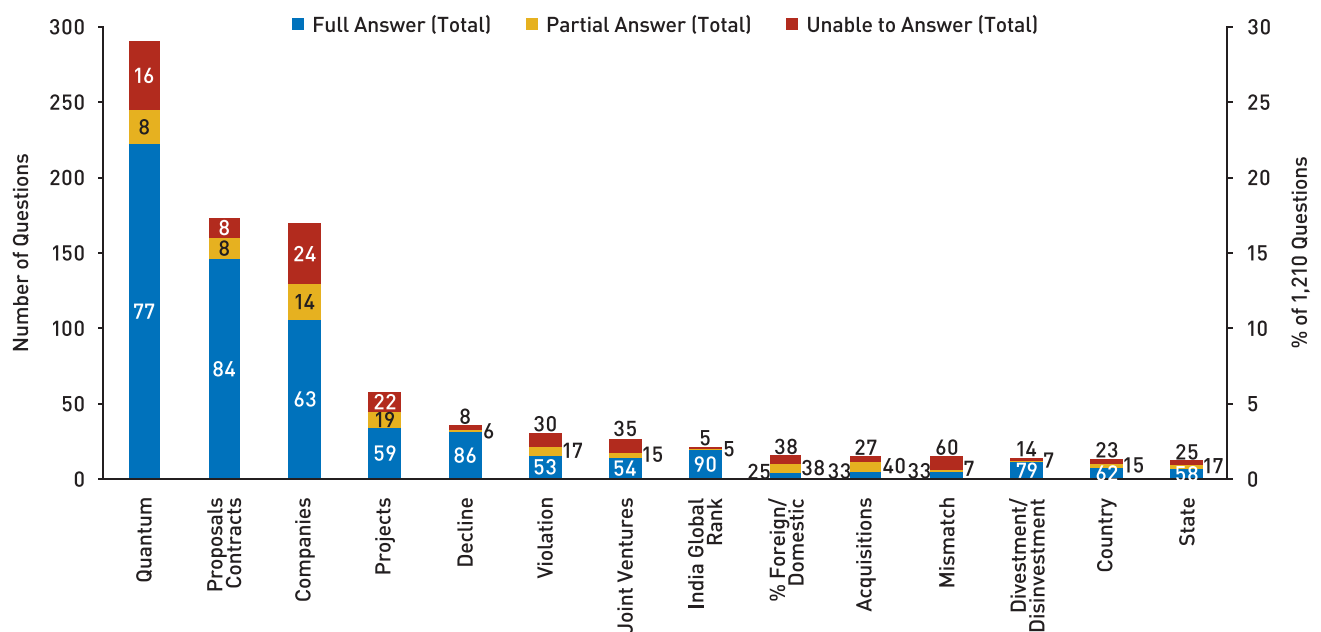
Notes:

1. The numbers in each bar show the percentage of Fully Answered, Partially Answered and Unable to Answer questions in each query category. The left vertical axis measures the numerical count of queries in each of these dominant policy categories.
2. Figures may not add to 100 due to rounding.

Source: NCAER.

Figure 9: Responses to Data Questions

(Per cent of Fully Answered, Partially Answered and Unable to Answer queries within each category)



Notes:

1. The numbers in each bar show the percentage of Fully Answered, Partially Answered and Unable to Answer questions in each query category. The left vertical axis measures the numerical count of queries in each of these dominant data categories.
2. Figures may not add to 100 due to rounding.

Source: NCAER.

FDI firms nationally or in major sectors,⁸ they struggled to name them or report the size of their individual investments. The same applied to FDI projects and joint ventures, which Ministries could not list by State. The reason, explained responding Ministries, is that, “Foreign companies do not require approval from the Government to set up units in the country; therefore this type of data is not maintained by the Ministry.”⁹ In some cases, however, they said that the necessary data is maintained at the State level.

Ministries were also unable to answer most of the queries about foreign firms’ share of total investment or total sales in specific sectors. Neither could they answer queries about FDI in rural and economically backward areas. Ministries typically explained their inability to do so as: “No such segregated data is available” or “Company-wise data, classified in terms of MNC or otherwise, is not centrally maintained.”

Impact Questions

Ministries could not, or did not, answer a quarter of the 322 Impact Questions. Most pertinently, within this subset of queries, they struggled most to explain FDI’s effects on domestic industry and sector development, the two Impact concerns that

this present study revealed to be of greatest interest to MPs (Figure 10). Some Ministries said that they had not yet studied the issue; others held that it was “too early” after FDI liberalisation or too “difficult” to assess benefits. Additionally, several Ministries said, “No data is available centrally regarding effect of FDI on the domestic industry”.¹⁰

Equally significant, Ministries failed to answer 50 per cent of the questions on employment generation by foreign firms in India, saying the Government does not maintain the requisite data. Reproduced below are some examples of MPs’ questions on this issue and responses they elicited:

Q: “Has the Government noticed any growth in employment after liberalising FDI policy?”¹¹

A: “No such data is maintained centrally.”

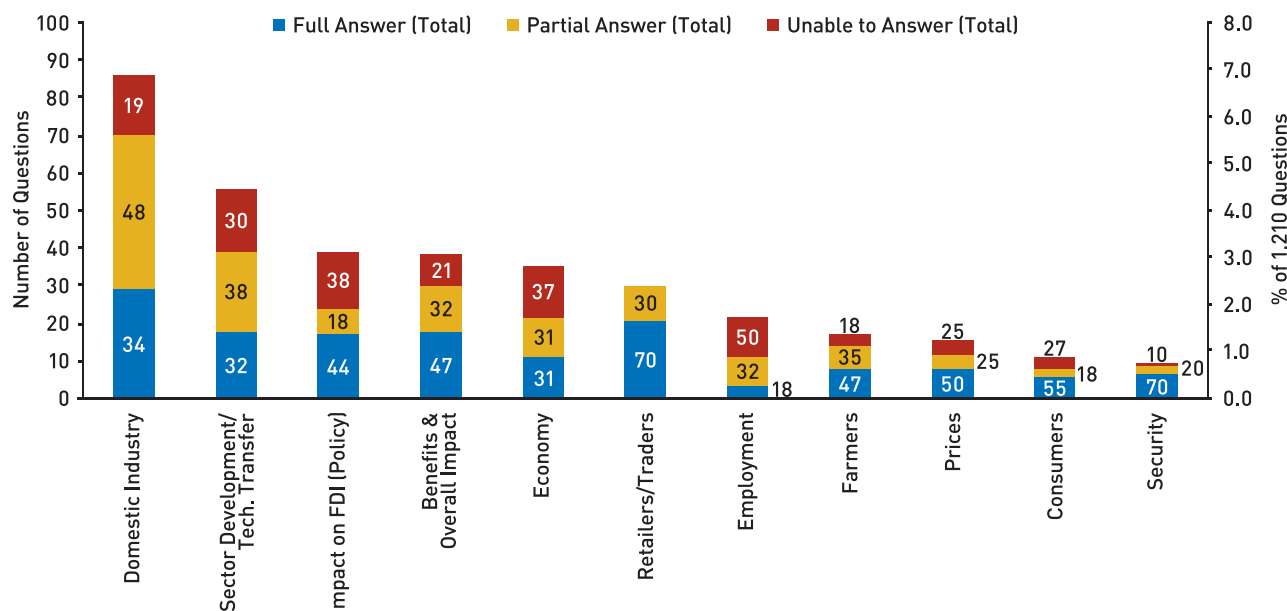
Q: “How much employment has been created by foreign IT firms?”¹²

A: “The specific data regarding employment generated by these companies to the Indian software and hardware engineers is not maintained.”

In other cases, Ministries’ responses were so general, they

Figure 10: Responses to Impact Questions

(Per cent of Fully Answered, Partially Answered and Unable to Answer queries within each category)



Notes:

- The numbers in each bar show the percentage of Fully Answered, Partially Answered and Unable to Answer questions in each query category. The left vertical axis measures the numerical count of queries in each of these dominant impact categories.
- Figures may not add to 100 due to rounding.

Source: NCAER.

9. See, for example, Rajya Sabha, Unstarred Question No. 2859, Food Processing Industries set up by MNCs, answered on 22.03.2013.

10. Rajya Sabha, Unstarred Question No. 2317, FDI in Food Processing Sector, answered on 16.08.2010.

11. Lok Sabha, Unstarred Question No. 3300, Review of FDI, answered on 18.03.2013.

12. Lok Sabha, Unstarred Question No. 2411, Jobs in IT Sector, answered on 28.03.2012.

did not really answer the question.

Q: “To what extent these easier FDI guidelines have helped the small scale sector?”¹³

(Note: SMEs has just been permitted to partner more freely with foreign investors)

A: “It is expected that with easier FDI guidelines, Micro and Small Enterprises will attract more FDI.

Q: “Whether Small and Medium Enterprises are likely to be affected adversely by allowing FDI in retail?”¹⁴

A: “Foreign Direct Investment (FDI in retail) may bring along with it advanced technology and capital to Micro, Small and Medium Enterprises (MSMEs) as well as increase their market share.”

Ministries also found it difficult to explain how changes in Indian regulation might impact FDI inflows, another issue of much interest to MPs.

However, Ministries did succeed in fully answering 70 per cent of the queries about the likely fall-out of FDI opening on retailers and traders, and left none of the remaining 30 per cent unanswered, in striking contrast to the other impact query categories discussed above. This was because Ministries cited from *Impact of Organised Retailing on the Unorganised Retail Sector*, a government study specifically commissioned from the

Indian Council for Research on International Economic Relations on this issue.

CONCLUDING REMARKS

As the foregoing analysis has revealed, MPs asked nearly two times more questions about FDI policy than they did about FDI data during the study period. Yet, despite this, it is essential to compile the data and undertake the research necessary to plug the gaps revealed by this analysis. For, many of the questions that ministries could not answer are also those that tend to become most quickly and easily politicised. Leading among these is foreign direct investors’ impact on domestic industry and employment, whether proper consultations have been held with local stakeholders, and whether safeguards have been instituted to protect them from any potentially negative fallouts of expanded FDI.

Equally essential is to put in place the data to holistically answer questions about the state destination of FDI inflows, and the state and sector-specific inventory of foreign direct investors in India. This data is indispensable in building a clear picture of who India’s foreign direct investors are, where they are investing, and what they are contributing to the Indian economy, all of which is crucial for robust FDI policy-making.

*Premila Nazareth Satyanand**

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13. Rajya Sabha, Unstarred Question No. 1014, Foreign Direct Investment in MSES, answered on 27.11.2009.

14. Lok Sabha, Unstarred Question No. 3913, Foreign Direct Investment in SMEs Sector, answered on 25.02.2011.

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