

**Determinants of FDI
and
The Indian Context**

Understanding Foreign Direct Investments

A Third party supplier
Supplier to Outsourcing
Exporter
Licensing
Local Marketing
Local Production - FDI
Local R&D

Determinants of FDI

Why should a firm invest?

Understanding FDI: A Classification

	Determinants of / Policies for FDI	Performance/ Strategy of FDI
	1	4
Foreign Firm	Resource Seeking Market Seeking Efficiency Seeking OLI Paradigm	New Area of Research (Timing, Length, Distance, Technology, Government Policies)
	2	3
Host Country	Industrial Productivity Export Growth Economic Development	Heterogeneous Impact

FDI History in India 1900s-2000

A Critical Review

FDI in the Indian Context

Reserve Bank of India Guidelines on FDI

Foreign Exchange Regulation Act, 1973, S.K Roy, Kamal Law House, Calcutta

Foreign Exchange Management Act, 1999, Taxman Allied Services (P) Ltd.

Handbook of Foreign Collaboration, 2000, Laws & Practices, R. Krishnan

Planning Commission Report on FDI in India, 2002, Government of India

Investments from foreign sources

International Classification

Foreign Direct Investment

Portfolio Investments

Indian Context

Foreign Direct Investment

Portfolio Investment and

Issue of GDR

FDI Prior to 1991

Foreign Exchange Regulation Act, 1973

1991 onwards

Automatic RBI approvals

&

Secretariat of Industrial Assistant (SIA) /

Foreign Investment Promotion Board (FIPB)

FDI has been categorized under two broad types

Financial collaborations

(In the form of equity; preferential shares,)

Technical collaborations

(Technical know-how fees, payment for design and drawing, payment for engineering services, royalty, brand names, and trademarks)

History of FDI in India: 1900s-2004

Period	Driving Forces	Nature of Investments	Sources of Investments	Stages of Evolution
1900s-1918	No Government Restriction	Trading & Finance	U.K.	Free Flow
1919-1942	Import Duties	Trading, Finance & Manufacturing	U.K., Japan	Stimulated Flow
1943-1961	Demand for Foreign Technology & Capital in Manufacturing Sector	Manufacturing, Sales & Services	U.K., U.S.A	Ambitious Flow
1962-1977	MRTP, 1970 FERA, 1973	Manufacturing	U.S.A, Germany and U.K	Controlled Flow
1978-1990	Liberalization of Imports and Exports	Manufacturing	USA, & Germany	Cautious Flow
1991-2000	Accelerated Liberalization imposed by IMF / World Bank	Manufacturing, Trade & Financial Service	Globalized	Globalized Flow

Policies of GOI and Responses of Foreign Companies, 1901-2000

Period	Policies of GOI	Responses of Foreign Companies
1901-1918	No restrictions on FDI	Foreign companies were engaged in various trading activities
1919-1942	Duties were levied on Imports	A few companies invested in local manufacturing in India
1943-1961	First Five Year Plan	General Motors, Ford Motors, Pepsi ceased operations in India.
	Second Five Year Plan	
	Industrial Policy, 1947 and 1956	Nearly 60 US firms invested in Sales & Marketing

Policies of GOI and Responses of Foreign Companies, 1901-2000

Period	Policies of GOI	Responses of Foreign Companies
1962-1977	Industrial Licensing Guidelines, 1969; MRTP Foreign Exchange Regulation Act, 1973	Over 60 companies (including IBM & Coke) ceased operations in India
1978-1990	Industrial Licensing Policy, 1977 and 1980	Limited response to investments in India
1991-2000	Industrial Licensing Policy, 1991 Foreign Exchange Management Act, 1999	Flooding of foreign investments Increased investments in services sector