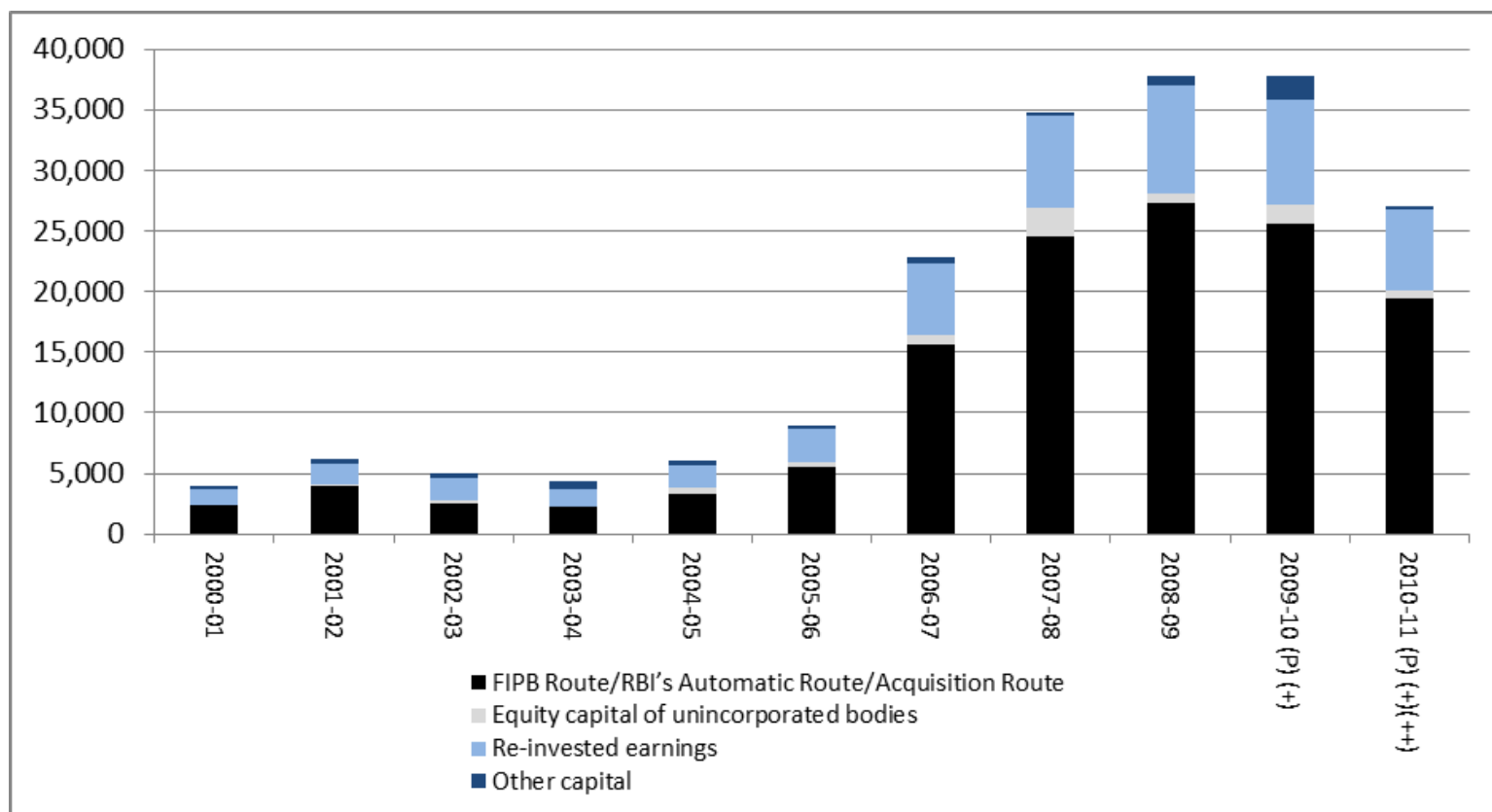


Why Low FDI in the East?

Parthapratin Pal

Indian Institute of Management Calcutta

Figure. FDI Inflow figures for India (in US\$ millions)



FDI from Japan

- FDI equity inflows US\$ 127.37 billion received from all countries, out of these:
- **SHARE OF JAPAN IN FDI EQUITY INFLOWS FROM APRIL 2000 TO JANUARY 2011.**
 - Rank: Japan ranks 6th
 - Percentage share of total FDI inflows: is 3.99%
 - Total FDI Inflows from Japan: are US\$ 5.08 billion

Amount Rupees in crores (US\$ in million)

<i>Ranks</i>	<i>Country</i>	<i>2009-10 (April- March)</i>	<i>2010-11 (April- March)</i>	<i>2011-12 (April- May)</i>	<i>Cumulative Inflows (April '00 - May '11)</i>	<i>%age to total Inflows (in terms of US \$)</i>
1.	MAURITIUS	49,633 (10,376)	31,855 (6,987)	9,296 (2,082)	252,057 (56,309)	41 %
2.	SINGAPORE	11,295 (2,379)	7,730 (1,705)	6,015 (1,354)	58,892 (13,249)	10 %
3.	U.S.A.	9,230 (1,943)	5,353 (1,170)	1,188 (266)	43,730 (9,714)	7 %
4.	U.K.	3,094 (657)	3,434 (755)	11,061 (2,463)	40,494 (9,102)	7 %
5.	NETHERLANDS	4,283 (899)	5,501 (1,213)	1,031 (230)	26,658 (5,931)	4 %
6.	JAPAN	5,670 (1,183)	7,063 (1,562)	1,635 (367)	25,593 (5,643)	4 %
7.	CYPRUS	7,728 (1,627)	4,171 (913)	800 (180)	22,748 (4,993)	4 %
8.	GERMANY	2,980 (626)	908 (200)	375 (84)	13,751 (3,083)	2 %
9	FRANCE	1,437 (303)	3,349 (734)	1,202 (270)	11,469 (2,534)	2 %
10.	U.A.E.	3,017 (629)	1,569 (341)	165 (37)	8,757 (1,927)	1 %
TOTAL FDI INFLOWS *		123,120 (25,834)	88,520 (19,427)	34,792 (7,785)	616,048 (137,623)	-

Note: (i) **Includes inflows under NRI Schemes of RBI.*
(ii) *Cumulative country-wise FDI equity inflows (from April 2000 to May 2011) – Annex-‘A’.*
(iii) *%age worked out in US\$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route+ acquisition of existing shares only.*

Eastern India-as compared to other regions

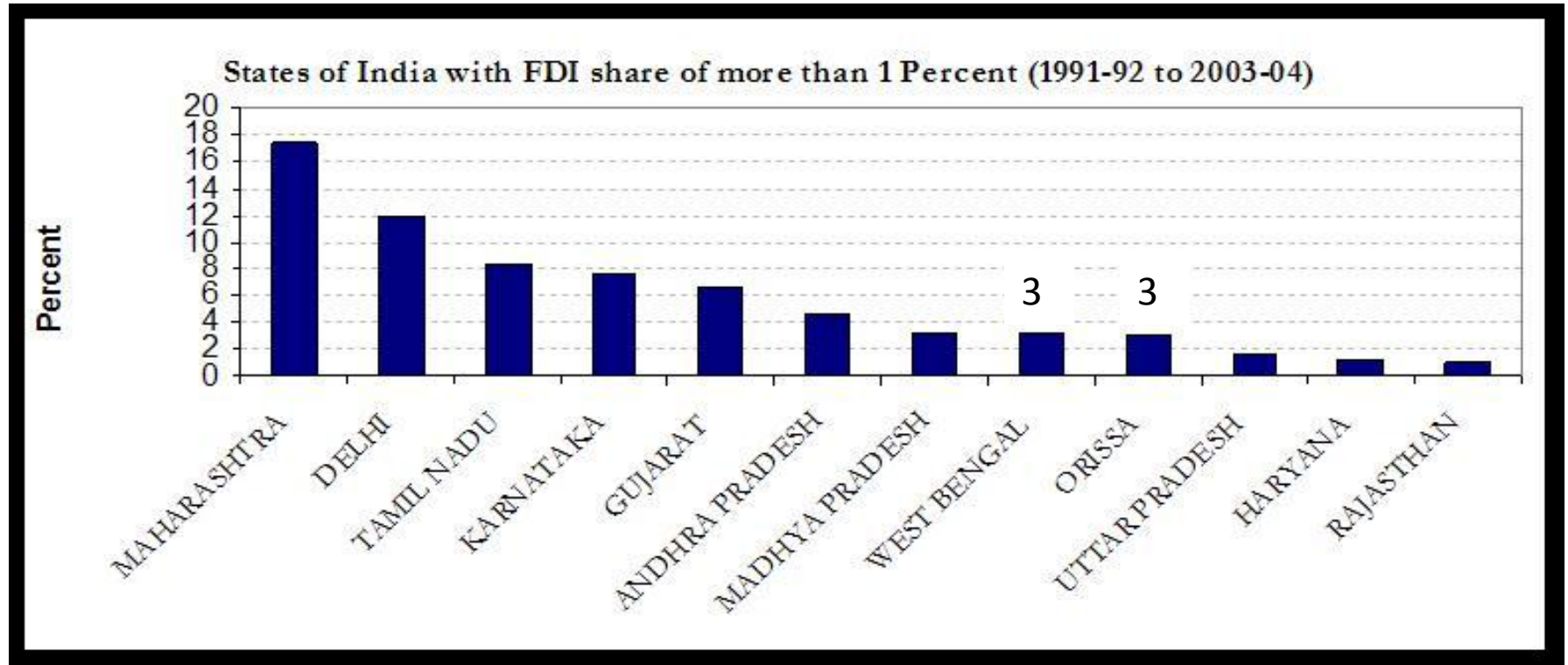
Region	State	GDP (INR Ten Million)	GDP (Billion \$)	Population (2011, in 000)	Per-Capita (INR)
East	Bihar	168,603	\$35.60	103,804	16,119
	Chhattisgarh	109,823	\$23.19	25,540	38,059
	Jharkhand	106,358	\$22.46	32,966	30,719
	Orissa	162,327	\$34.27	41,947	33,226
	West Bengal	400,561	\$84.57	91,348	41,469
East Total		947,672	\$200.09	295,605	31,918
North Total		1556774	328.7	423379	45,291
North-East Total		137,518	\$29.04	41,918	38,047
South Total		1,519,943	\$320.92	254,995	51,836
West Total		1,356,568	\$286.43	174,215	90,236

G. STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOWS¹ (from April 2000 to May 2011):

Amount Rupees in crores (US\$ in million)							
S. No.	RBI's - Regional Office ²	State covered	2009-10 (Apr.- Mar.)	2010-11 (Apr.- March)	2011-12 (April - May)	Cumulative Inflows (April '00 - May '11)	%age to total Inflows (in terms of US\$)
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	39,409 (8,249)	27,669 (6,097)	16,730 (3,735)	218,201 (48,803)	35
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	46,197 (9,695)	12,184 (2,677)	8,599 (1,927)	122,289 (27,015)	20
3	BANGALORE	KARNATAKA	4,852 (1,029)	6,133 (1,332)	1,899 (424)	38,556 (8,653)	6
4.	CHENNAI	TAMIL NADU, PONDICHERRY	3,653 (774)	6,115 (1,352)	2,258 (509)	33,105 (7,359)	5
5	AHMEDABAD	GUJARAT	3,876 (807)	3,294 (724)	821 (184)	32,514 (7,340)	5
6	HYDERABAD	ANDHRA PRADESH	5,710 (1,203)	5,753 (1,262)	983 (221)	27,545 (6,181)	5
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	531 (115)	426 (95)	578 (130)	6,946 (1,618)	1
8	CHANDIGARH ³	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	1,038 (224)	1,892 (416)	128 (29)	4,813 (1,053)	1
9	BHOPAL	MADHYA PRADESH, CHATTISGARH	255 (54)	2,093 (451)	351 (78)	3,361 (732)	0.5
10	PANAJI	GOA	808 (169)	1,376 (302)	0.60 (0.13)	3,326 (725)	1
11	JAIPUR	RAJASTHAN	149 (31)	230 (51)	4 (0.9)	2,454 (521)	0.4
12	KOCHI	KERALA, LAKSHADWEEP	606 (128)	167 (37)	286 (64)	1,944 (432)	0.3
13	BHUBANESHWAR	ORISSA	702 (149)	68 (15)	90 (20)	1,297 (281)	0.2
14	KANPUR	UTTAR PRADESH, UTTARANCHAL	227 (48)	514 (112)	254 (57)	1,066 (234)	0.2
15	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	51 (11)	37 (8)	-	316 (72)	0.1
16	PATNA	BIHAR, JHARKHAND	-	25 (5)	-	27 (6)	0
17	REGION NOT INDICATED ³		15,056 (3,148)	20,543 (4,491)	1,809 (405)	117,752 (26,475)	19
SUB. TOTAL			123,120 (25,834)	88,520 (19,427)	34,792 (7,785)	615,515 (137,502)	100
18	RBI'S-NRI SCHEMES (from 2000 to 2002)		0	0	0	533 (121)	-
GRAND TOTAL			123,120 (25,834)	88,520 (19,427)	34,792 (7,785)	616,048 (137,623)	-

1.5%

State-wise Distribution of FDI in India



- Top 10 Indian states have attracted more than 63 percent of total FDI.
- The bottom 10 states together have received less than 1 percent of total FDI.
- The seven North-Eastern states together have received only 0.03 percent of total FDI during the same period.

Possible reasons for low FDI

- Eastern states have lower per capita income than the more developed regions
- High population density implies that land acquisition is a problem
- Lack of development is leading to increasing social tension in some parts-making these destinations trouble prone
- Lack of international port makes it difficult for FDIs to import and export
- There is a perception that doing business is difficult in these parts of the country
- Manufacturing is weak in these states.

From the doing business database

<u>Economy</u>	<u>Ease of Doing Business Rank</u>	<u>Starting a Business</u>	<u>Dealing with Construction Permits</u>	<u>Registering Property</u>	<u>Paying Taxes</u>	<u>Trading Across Borders</u>	<u>Enforcing Contracts</u>	<u>Closing a Business</u>
Ludhiana	1	7	7	11	1	12	4	2
Hyderabad	2	4	4	9	13	13	1	1
Bhubaneswar	3	5	8	17	9	1	5	5
Gurgaon	4	9	2	1	7	17	14	6
Ahmedabad	5	14	4	2	11	3	16	4
New Delhi	6	1	4	7	7	14	12	6
Jaipur	7	3	13	3	2	14	7	14
Guwahati	8	13	12	14	6	7	2	12
Ranchi	9	15	9	6	4	8	11	13
Mumbai	10	12	17	5	4	3	17	3
Indore	11	8	13	10	10	11	10	9
Noida	12	6	9	12	2	16	7	16
Bengaluru	13	17	1	4	12	9	15	8
Patna	14	2	9	15	15	10	2	15
Chennai	15	10	3	16	17	2	7	10
Kochi	16	16	15	7	14	5	6	10
Kolkata	17	10	16	13	16	6	13	17

West Bengal

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Manufacturing as a % of State Domestic Product	9.44	8.59	9.05	9.50	9.02	8.74
Registered manufacturing as a % of SDP	4.64	3.70	3.95	4.23	4.08	3.87
Unregistered manufacturing as a % of SDP	4.80	4.89	5.11	5.27	4.95	4.88

Maharashtra

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Manufacturing as a % of State Domestic Product	18.27	21.42	22.10	21.87	20.96	19.92
Registered manufacturing as a % of SDP	11.71	15.23	16.15	16.05	15.57	14.64
Unregistered manufacturing as a % of SDP	6.56	6.19	5.95	5.82	5.40	5.28

Other states

- Bihar, Jharkhand, Orissa also have poor contribution of manufacturing sector
- Chhattisgarh has about 21% of SDP in manufacturing but it faces other problems
- Extractive industries are dominant in Jharkhand and Chhattisgarh
- Investment in extractive industries are faced with political and social problems and environmental issues
- Japanese investment is more towards the manufacturing sector

Japanese FDI is more focused towards manufacturing sectors

- **Top sectors that attracted FDI equity inflows** *(from April 2000 to January 2011)*, from Japan, are:
 - Automobile industry (27%)
 - Services sector (14%)
 - Electrical equipments (11%)
 - Industrial machinery (7%) and
 - Trading (7%)

HITACHI CONSTRUCTIONS MACHINERY CO.LTD., has acquired TELCO CONSTRUCTIONS EQUIPMENTS CO. but the government database does not show the location of this FDI.

FDI in manufacturing is more capital intensive

- FDI in manufacturing is capital intensive with huge initial requirement for capital.
- West Bengal, Orissa may be receiving some FDI in the knowledge-driven services sector. The requirement of capital is relatively less in this sector.
- May be differences in economic structures of Eastern India is creating a lopsided picture of FDI volume received by them.

Some difficult questions...

- Why is manufacturing weak in this region?
- What can be done to improve it?
- How much problem is due to political/social tensions? Are they the real barriers?
- How much of this problem of Eastern India is related to perception?
 - The share of eastern and north-eastern India in total FDI has been around seven percent; the share of West Bengal alone being four percent. However, whenever a business delegation from outside visits India, it is taken on a fixed circuit of Mumbai-Delhi-Bangalore and Hyderabad to the detriment of equally good locations elsewhere.
 - There is also a need to further improve the international linkages of these regions through increasing flights and airport facilities.
 - West Bengal and eastern India on the whole have skilled manpower and are rich in natural resources; however, in the absence of requisite infrastructure development these advantages are not able to attract FDI.
 - The State Government may, therefore, be allowed to directly negotiate with multi-lateral and bilateral agencies for infrastructure developments. (Planning Commission 2002)

Thank You