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DEVELOPMENT OF BRITISH FDI IN INDIA IN 1991–2008

Introduction

Globalization is often defined as the process of greater interdependence among countries and their citizens. Nowadays, no country can exist in economic isolation. Levels of income and employment, living standard, industries, service sectors depend on the integrated global market, where the liberalization of trade and investment is remarkable¹. Especially foreign investments – portfolio investment and direct investment, which can be regarded as substitutes for international trade, have recently played more and more significant role in the international economy².

The role of international capital movement in the form of foreign direct investment (FDI)³ is still debated among economists. Until the 1980s, many governments of developing countries regarded it with great wariness. It was viewed as a threat by host countries. Since then the attitude has changed much and the investment policy of attracting foreign capital has been developed⁴. Moreover, the global financial integration

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¹ R.J. Carbaugh, *International Economics*, Thomson South – Western, Canada 2006, p. 2-4.

² A. Salvatore, *International Economics*, John Wiley & Sons, New York 2007, p. 417-418.

³ Foreign direct investment (FDI) is usually defined as investment reflecting “the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity in an economy other than that of the investor (direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise”. The investor’s ownership of at least 10% of the voting power is the criterion used (*OECD Benchmark Definition of Foreign Direct Investment*, OECD, Third edition, Paris 1999, p. 5-7). Compare also: E. Czerwieniec, *Zagraniczne inwestycje bezpośrednie w gospodarce krajów wysoko rozwiniętych*, in: *Zeszyty Naukowe* 105, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 1990, p. 9-10.

⁴ P. Deszczyński, *Inwestycje bezpośrednie RFN w Polsce w okresie transformacji*, in: *Ruch Prawniczy, Ekonomiczny i Socjologiczny*, no. 1/2004, Poznań 2004, p. 85 and D. H. Brooks, E.X. Fan, L.R. Sumulong, *Foreign Direct Investment: Recent Trends and*

was a cause of the considerable increase in net capital flows from developed countries to developing countries⁵.

The following paper concentrates on the inflow of FDI from the UK to India as one of the example of the mentioned tendency⁶. First, briefly is presented the genesis of British FDI in India, then we concentrate on the development of Indian FDI regime with special focus on the liberalization of the economy and the FDI policy, which was initiated in 1990s. Next the attention is focused on the growth of FDI inflows to India, placing emphasis on British capital, its structure in terms of sectors and regions, in the years 1991–2008⁷. The last section of the article provides a specification of major British investors in India.

1. The genesis of British FDI in India

The British – Indian economic relationship is about 400 years old and it has influenced strongly both economies⁸. Britain exploited India – the Jewel in the Crown of the British Empire, during colonial period but also began modernisation of the country. So far, the general evaluation of this relation has not yet been agreed⁹.

the Policy Context, in (ed) D.H. Brooks, H. Hill, *Managing FDI in a Globalizing Economy: Asian Experience*, Palgrave Macmillan, New York 2004, p. 1-2.

⁵ E. Prasad, K. Rogoff, S.J. Wei, M.A. Kose, *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, in: (ed) W. Tseng, D. Cowen, *Experience with Reform and Growth*, IMF, Palgrave Macmillan, New York 2007, p. 205.

⁶ A new relation has been observed recently, developing countries as India or China, commence to invest widely in developed economies as UK or USA in the form of FDI. In 2007 total outflows of Indian FDI exceeded total inflows; Tata Tea acquired British Tetley in 2006, Tata Steel bought Corus Group and Jaguar/ Land Rover, while Wipro acquired Austrian New Logic; Amtek took over the Triplex-Ketlon Group. India has retained recently its position as one of the world's fastest-growing sources of investment in the UK (see: B. Liberska, *Wielkie zmiany na globalnym rynku*, Rzeczpospolita, 22.03.2008 and *UK Inward Investment 2007/2008*, UK Trade & Investment, London 2008, p. 8).

⁷ Indian fiscal year (FY) lasts from April to March and in consequence the statistics data published in this country relate usually to that period. That is why, in the article the examined time was concerned from April 1991 to March 2008 when Indian statistics were used and from the beginning of 1991 to the end of 2007 when British or international statistics were analysed.

⁸ J. Kieniewicz, *Historia Indii*, Zakład Narodowy im. Ossolińskich, Wrocław 2003, p. 372, 503.

⁹ *Ibidem*, p. 504.

In the nineteenth century Britain became the leading investor, with 41% of total international investment¹⁰. However, the majority of this capital was channelled into portfolio, i.e. shares and loans, investments via London capital market. No more than 10% is estimated to be in form of the FDI, but Jeremy emphasizes, after Dunning, Wilkins and Jones, that no reliable FDI statistics exist before the 1960s¹¹. In 1914 30% of Britain's national wealth was invested in overseas assets, from which 35% were direct foreign investments.

Multinational enterprises (MNEs)¹² are especially related to FDI¹³. That is why, it is essential to mention predecessors of the modern British MNEs, which were set up in the sixteenth and the seventeenth centuries. One of the most significant was the East India Company (founded in 1600, extinguished in 1858), trading mainly in cotton, silk, indigo dye, saltpetre, tea and opium and operated mainly in India¹⁴. If they ought to be regarded as MNEs is disputed because they did not handle a volume of transaction large enough to create a managerial hierarchy and home-based administrative control. But free-standing companies (FSCs) registered in London between 1870 and 1914 are certainly an early British form of MNEs. These companies maintained tiny office headquarters in London from which their directors exercised power. They were operating very often overseas within and outside the Empire. Later on, they were transformed into "investment groups", such as the Scottish Merchant House of Matheson & Co. or Jardine Skinner & Co. of Calcutta, both active in India. British multinational activity before 1914 was noted in all sectors, but the most important were: trading companies, banks, and public utilities. They also owned and managed railway, gas, electricity and tramways. Besides, the British FDI was widespread not only in the primary sector – gold, copper, tin, and lead mining but also in manufacturing industry.

¹⁰ D.J. Jeremy, *A business history of Britain, 1900–1990s*, Oxford University Press, New York 1998, p. 235-236.

¹¹ Ibidem, p. 235.

¹² The term Multinational Enterprise (MNE) in the English literature language may be named also as Multinational Firms, Multinational Corporation (MNC) or Transnational Corporation (TNC). In this article we use MNE – the most common name.

¹³ P.R. Krugman, M. Obstfeld, *International Economics: theory and policy*, Pearson Addison Wesley, Boston, USA 2006, p. 157-165.

¹⁴ D.J. Jeremy, *A business history...*, op. cit., p. 236-237.

After the First World War despite the shock of wartime, then world economic depression and the emergence of authoritarian regimes, the British maintained their multinational direct investments. The estimated British share of the world's accumulated FDI fell slightly in relative terms from about 45% in 1914 to nearly 40% in 1938. In absolute figures that share changed from USD 6,500 million to USD 10,500 million. At that time especially manufacturers moved into FDI on a large scale. In India, Glaxo, in pharmaceuticals, set up manufacturing subsidiaries; Metal Box, in metal container manufacture, invested in the 1930s. The Bleachers' Association and the Calico Printers' Association launched joint ventures in vertically integrated cotton manufacturing plants first in Egypt (1936) and India (1937). Turner & Newall, active in asbestos textile, cement, brake, and insulation manufacture, set up subsidiaries in the mid 1930s. in India¹⁵.

The Second World War caused the UK's relative decline in FDI in the 1940s and the 1950s but then British businesses recovered. Moreover, direction of FDI from that time was changed as well. Until the 1960s British multinationals invested mainly into the Commonwealth countries¹⁶, it later shifted to the Western Europe and USA. Afterwards, the break-up of the British Empire and the gaining of Indian independence in 1947 caused restrictions on British investments in India until the 1990s.

The objective of independent India's development strategy was to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. But the policy of the Indian government on FDI has evolved over time since the independence. In the beginning a strategy of import-substituting industrialization needed assets (technology, skills) so India accepted FDI. Soon, with the Second Five Year Plan, a more restrictive attitude to FDI was adopted. One of the objective of industrial policy was a reduction of foreign dominance. In the 1960s limitations were placed on proposals that would not be accompanied by any transfer of technology, and on projects seek-

¹⁵ Ibidem, p. 241-243.

¹⁶ The Commonwealth of Nation, until 1949 the British Commonwealth of Nations, was established in 1931 and associates countries, most of which are former British colonies, consulting and co-operating in the common interests of their people and have the British monarch as the Head of the Commonwealth. India and Pakistan jointed the organisation in 1947 as first countries with mainly non-European population and it caused reforms of the organisation (www.thecommonwealth.org, 10.08.2008).

ing more than 40% foreign ownership. Then in 1973 foreign companies were further restricted to a select group of core or high-priority industries. The Foreign Exchange Regulation Act (1973) required all foreign companies to register as Indian companies with up to 40% foreign equity. The only exceptions were made for companies active in high-technology, high priority sectors, tea plantations, and firms producing mainly for export¹⁷. The failure of the development – the low rate of growth¹⁸ with a rising public deficit and a periodic balance of payment crises caused reforms in the 1990s.

2. The liberalization of the Indian FDI policy in the years 1991–2008

Manmohan Singh, the Finance Minister of India under the Narsimha Rao Government began fundamental reforms in 1991¹⁹. The reforms had two broad objectives. One was the reorientation of the economy from centrally directed and highly controlled to a “market open economy”. The second objective was a macroeconomic stabilization. During that time there was a basic change in approach. Until 1991, restriction were the rule and reforms just broaden “positive list” approach. But since the July 1991 reform package, the absence of restrictions became the rule, with “negative list” approach used for their retention²⁰.

The “Statement of Industrial Policy” dated July 24, 1991, called the New Industrial Policy, ended most industrial licensing and myriad entry restrictions, and public sector monopoly in many sectors as well as initiated a policy of automatic approval for FDI up to 51%. The policy statement abolished the threshold of 41% on foreign equity investments. The Reserve Bank of India (RBI) was empowered to approve equity investment up to 51% in 34 industries. Then, this policy was considerably liberalized with an automatic approval made available to almost all in-

¹⁷ N. Kumar, *India*, in: (ed) D.H. Brooks, H. Hill, *Managing FDI in a Globalizing Economy: Asian Experience*, Palgrave Macmillan, New York 2004, p. 120.

¹⁸ Defined in the literature as “Hindu rate of growth” (compare: K. Singh, S. Bery, *India’s Growth Experience*, in: (ed) W. Tseng, D. Cowen, *Experience with Reform and Growth*, IMF, Palgrave Macmillan, New York 2007, p. 23.

¹⁹ More about the process of liberalization of the FDI policy in India see: M. Nytko, *Liberalisation of Indian foreign direct investment policy: 1991-2006*, Zeszyty Studiów Doktoranckich, nr 32, AE w Poznaniu, Poznań 2007, p. 51-72.

²⁰ A. Panagariya, *A Triumph of Reforms in India.*, in: (ed) W. Tseng, D. Cowen, *Experience with Reform...*, op. cit., p. 188.

dustries except those subject to a public sector monopoly and industrial licensing. Reforms were gradually liberalizing the economy, but this process is still far from complete. In 48 industries which is the majority of India's manufacturing output, the ceiling for approval under automatic route is 51%. In 8 categories, i.e. mining services, electricity generation & transmission, and the construction of roads, bridges, ports, harbours the automatic approval route is available for investments of up to 74%. The automatic approval of FDI up to 100% is given in all manufacturing activities in Special Economic Zones (SEZs) except those subject to a public sector monopoly or licensing. Since 1991, India has also carried out a substantial liberalization of merchandise trade and trade in service (banking, insurance, telecommunication)²¹.

Nowadays, FDI is permitted up to 100% on the automatic route almost in all sectors/activities except the following:

- if more than 24% foreign equity is proposed to be inducted for manufacture of items reserved for a small-scale sector,
- proposals where the foreign investor has an existing joint venture/ technical collaboration/ trademark agreement in the “same” scope of activity.

FDI is prohibited in 4 activities viz.:

- gambling and betting,
- lottery business,
- retail trading (except Single Branded product retailing),
- atomic energy²².

In 2007 a complete review of the FDI policy was undertaken for the first time since 1991, in order to consolidate the liberalization already effected and to further rationalize the policy. In effect, there were some changes as follows:

- FDI has been allowed up to 100% under the automatic route for distillation and brewing of potable alcohol; manufacture of industrial explosives; manufacture of hazardous chemicals; manufacturing activities located not further than 25 km of the Standard Urban Area limits requiring Industrial license under the IDR Act; setting up of greenfield airport projects; laying of natural gas/ LNG pipelines, market study & formulation and investment fi-

²¹ Ibidem, p. 189.

²² *Annual Report 2007–2008*, Government of India, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion, New Dehli 2008, p. 41.

nancing in the petroleum sector and cash & carry wholesale trading and export trading,

- FDI caps have been increased to 100% and automatic route extended to coal & lignite mining for captive consumption; setting up infrastructure relating to marketing in petroleum & natural gas sector and exploration and mining of diamonds and precious stones,
- FDI has been allowed up to 100% on the automatic route in power trading and processing and warehousing of coffee and rubber (new activities),
- FDI has been allowed up to 51% for “single brand” product retailing which needs prior the Government approval,
- mandatory divestment condition for B2B e-commerce has been removed,
- the procedure of transfer of shares from resident to non-resident including acquisition of shares in an existing company has been simplified and placed on the automatic route subject to the sectoral policy on FDI,

Equity caps on FDI are at present only on limited sectors:

- up to 20% – FM radio broadcasting,
- up to 26% – insurance, defense production, petroleum refining in the PSUs; print and electronic media,
- up to 49% – air transport services, asset reconstruction companies, cable network, DTH, hardware for uplinking, HUB,
- up to 51% – single brand retailing of products,
- up to 74% – atomic minerals, private sector banking, telecom services, establishment & operation of satellites.

FDI in the agriculture & plantation sector is permitted up to 100% under the automatic route in: floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aquaculture and cultivation of vegetables & mushrooms, under controlled conditions and services related to agro and allied sectors. FDI up to 100% with government approval is permitted in tea plantation subject to the conditions of divestment of 26% equity of the company in favour of an Indian partner and prior approval of the state government concerned, in case of any land use

change. Besides the mentioned, FDI is not allowed in any other agricultural sector/ activity²³.

Legal framework for the British – Indian FDI, apart from international agreements and regional instruments, is based on bilateral treaty for the avoidance of double taxation from 16 April 1981 and the following bilateral treaty for the protection and promotion of investments between the countries from 14 March 1994²⁴.

3. Inflows of British FDI into India

Reforms processed over the last 17 years have opened the Indian economy. It caused the increase of foreign direct investment, which in the fiscal year (FY) 2006–2007 was 19.7 billion USD and it grew in FY 2007–2008 up to 24.5 billion USD²⁵. But except the liberalization, another important factor of this augmentation was the sharp expansion in the global scale of FDI outflows²⁶. The growth of foreign direct investment from April 1991 to March 2008 is shown in Table 1. It rose almost 17 times from FY 1991–1992 to 1999–2000, from USD 129 million to USD 2,155 million. The growth was observed every year, except of FY 1998–1999 and FY 1999–2000, after the Asian crisis, sanctions imposed on India for testing five atomic bombs and the slowdown of pace of reforms as a conservative religion-based party came to power in India in 1997²⁷. The cu-

²³ Ibidem, p. 42-43 and *Investing in India – Foreign Direct Investment – Policy and Procedures*, Government of India, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, New Delhi 2008, p. 59-69.

In general, there is still opinion that the policy framework for FDI in India is still restrictive in relation to OECD countries (see: *OECD Economic Surveys: India*, OECD, Volume 2007/14, Paris 2007, p 112) and as a result it limits the FDI inflows. Some authors claim that India has reached limited success in FDI inflows, especially because: 1) heavy regulations, which have not completely gone after liberalization, 2) resistance to FDI by domestic industry, 3) inadequacies in physical and legal infrastructure limit Indian absorptive capacity and in consequence its attractiveness to private foreign investors (see: T.N. Rinivasan, S.D. Tendulkar, *Reintegrating India with the World Economy*, Institute for International Economics, Washington, DC, USA 2003, p 47). Compare also: K. Singh, *Foreign Direct Investment in India: A critical Analysis of FDI from 1991–2005*, New Dehli, 2005.

²⁴ www.uncadt.org (09.08.2008).

²⁵ www.uncadt.org (09.08.2008).

²⁶ N. Kumar, *India...*, op. cit., p. 125.

²⁷ M. Ariff, A.M. Khalid, *Liberalization and growth in Asia: 21st century challenges*, Edward Elgar, Cheltenham, UK 2004, p. 95.

mulative inflows of FDI into India from FY 1991–2002 to FY 1999–2000 attracted USD 15,483 million.

British cumulative inflows of FDI equity into India from August 1991 to March 2002 accounted for USD 1,106 million. The total cumulative inflows for this period was USD 23,829 million. It means that UK's share was just 4.6%.

Statistics mentioned above delivered by the Reserve Bank of India (RBI) underestimates FDI by ignoring international standards of FDI computation set by the IMF by including only one component of FDI into its calculations – foreign direct equity inflows²⁸. India did not include:

- reinvested earnings by foreign companies,
- proceeds of foreign equity listings and foreign subordinated loans to domestic subsidiaries as part of intercompany debt transaction
- overseas commercial borrowings (trade credits, financial leasing) by foreign direct investors in foreign invested firms
- non-cash acquisition of equity, investment of foreign venture capital investors, earnings data of indirectly held FDI enterprises, control premium, noncompetition fees, which are usually included in other countries' statistic according to the IMF's definition²⁹.

The tendency of increasing FDI inflows into India was maintained until the end of examined time. Total foreign direct investments grew from USD 4,029 million in FY 2000–2001 to USD 32,435 million (estimated) in FY 2007–2008, that was the increase of 805%. Although the growth was noted every year (the only exception was in FY 2003–2004 and the reason for this fluctuation is not clear and hard to identify), the biggest rise was within last 3 years. It was USD 8,961 million in the FY 2005–2006 and rose by 48% in comparison to the previous fiscal year. Then in FY 2006–2007 it increased as many as USD 22,079 million, which was about 146%, and the following FY 2007–2008 inflow of

²⁸ Data on FDI have been revised since FY 2000-2001 with expanded coverage “to approach international best practices” (www.rbi.org.in). That is why, data from FY 2000-2001 onwards are not comparable with those data for earlier years. It is also the reason why it is necessary to divide description of FDI inflows into 2 parts. First, calculation of RBI according to his own standards and then second part, where statistics shows data according to international standards.

²⁹ A.R. Kanuk, *Capital markets of India: an investor's guide*, John Willey & Sons, New Jersey, USA 2007, p. 4.

FDI increased about next 47%, up to USD 32,435 million. The inflow of FDI from FY 2000–2001 to FY 2007–2008 rose 8 times, from USD 4,029 to USD 32,535 million. If we look into the structure of FDI, it must be observed that the majority were equity inflows, but reinvested earnings increased as well, especially during last 3 years. Inter company debt transaction (included in part Other capital) made little part of FDI inflows during the analysed time.

Table 1. Indian foreign direct investment inflows, April 1991–March 2008 (USD million)

Financial year (April– March)	A. Direct investment (I+II+III)			B. Cumulative inflows of total direct invest- ment
	<i>I. Equity</i>	<i>II. Reinvested earnings</i>	<i>III. Other capital**</i>	
1991–1992	129			129
1992–1993	315			444
1993–1994	586			1,030
1994–1995	1,314			2,344
1995–1996*	2,144			4,488
1996–1997*	2,821			7,309
1997–1998*	3,557			10,866
1998–1999*	2,462			13,328
1999–2000*	2,155			15,483
2000–2001*	4,029			19,512
	<i>2,400</i>	<i>1,350</i>	<i>279</i>	
2001–2002*	6,130			25,642
	<i>4,095</i>	<i>1,645</i>	<i>390</i>	
2002–2003*	5,035			30,677
	<i>2,764</i>	<i>1,833</i>	<i>438</i>	
2003–2004*	4,322			34,999
	<i>2,229</i>	<i>1,460</i>	<i>633</i>	
2004–2005*	6,051			41,050
	<i>3,778</i>	<i>1,904</i>		

2005-2006*	8,961			50,011 5,975
	5,975	2,760		
2006-2007* P	22,079			72,090 16,482
	16,482	5,091		
2007-2008* P	32,435			104,525
	25,241	6,884	310	

P: Provisional; *: Includes acquisitions of shares of Indian companies by non-residents under Section 6 of Foreign Exchange Management Act, 1999. Data on such acquisitions are included as part of FDI since 1996; **: data pertain to inter company debt transaction of FDI entities. Data on FDI have been revised since 2000–2001 with expanded coverage to approach international best practices. Data from 2000–2001 onwards are not comparable with FDI data for earlier years. Direct investment data for 2006–2007 include swap of shares of 3.1 billion. Negative (–) sign indicates outflow.

Source: www.rbi.org.in (09.08.2008) and www.dipp.nic.in (09.08.2008).

Cumulative inflows of the total FDI into India, which is the basic indicator describing FDI³⁰, shows the amount of capital transferred from FY 1991–2002 to FY 2007–2008 (See Table 1.). The data reveals that there was a big change. In the beginning there was not nearly any FDI inflow and later, year by year it was increasing. At the end of FY 2007–2008 the cumulative total FDI inflow was USD 104,525 million³¹.

The growth and share of British FDI equity inflows to India is presented in Table 2. and it shows the fluctuations. It decreased from 340 million USD in FY 2002–2003 to 101 million USD in FY 2004–2005. Then the tendency changed as the growth of British FDI was observed, especially there was a considerable augment from FY 2005–2006 to 2006–2007 – it rose 7 times, from USD 266 million to USD 1,878 million. This was in conformity with the global tendency (see above). The

³⁰ M. Matkowska, *Zagraniczne inwestycje bezpośrednie*, in: (ed) J. Dudziński, H. Nakonieczna-Ksiel, *Międzynarodowe stosunki gospodarcze: wybrane zagadnienia*, Wydawnictwo Zachodniopomorskiej Szkoły Biznesu, Szczecin 2007, p. 120.

³¹ In comparison to inflows of FDI into some Asia and Eastern European countries, India's inflows is still modest (see: *OECD Economic Surveys: United Kingdom*, OECD, Volume 2007/17, Paris 2007, p. 112). For example cumulative inflows of FDI into China from 1993 to 2006 was USD 667,913 million, while in India during the same period it was just USD 67,078 million (see: *OECD Factbook 2008: economic, environmental and social statistics*, OECD, Paris 2008, p. 82). However, such a big difference should be examine carefully, as Indian statistics due to measurement problems are underestimated and Chinese data is overestimated due to round tripping of capital (see: N. Kumar, *Foreign Direct Investment in: The Oxford Companion to Economics in India A – Z*, Oxford University Press, New Dehli 2008, p. 204).

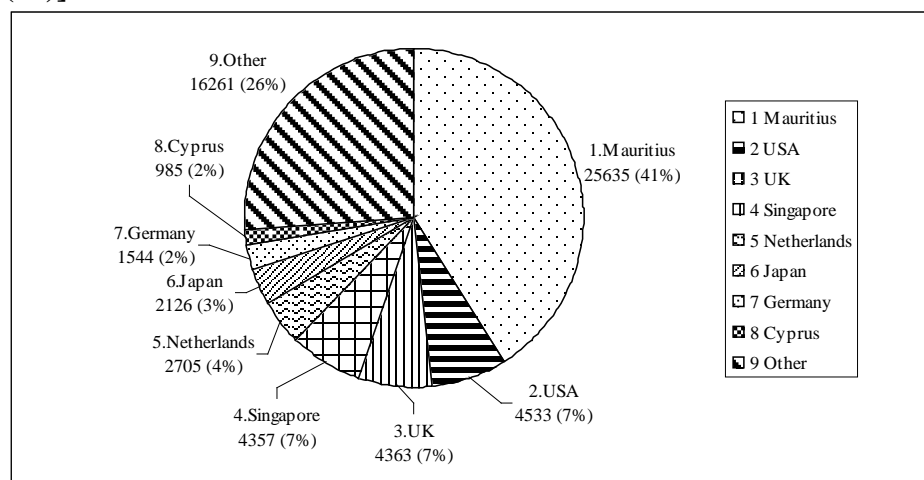
following year the amount fell down to USD 1,176 million. The share of British FDI equity inflows was during the examined time from 4.6% up to 11.9% in the record financial year 2006–07³². The UK was the third largest investor in India.

Table 2. British FDI equity inflows to India (Financial year-wise, USD million)

	USD in million	%	Total
August 1991 – March 2002	1,106	4.6	23,829
2002–03	340	10.8	3,134
2003–04	167	6.3	2,634
2004–05	101	2.7	3,754
2005–06	266	4.8	5,546
2006–07	1,878	11.9	15,726
2007–08	1,176	4.8	24,579

Source: www.dipp.nic.in (09.08.2008).

Figure 1. Share of top investing countries FDI equity inflows to India [Cumulative value of inflows, April 2000 – March 2008, USD million; (%)]



Source: www.dipp.nic.in (09.08.2008).

³² This data indicates only FDI equity inflows, which is the result of specific Indian FDI calculation and limited availability of statistics about FDI in India.

To explain the share of British FDI inflows, it is necessary to look into the structure of top investing countries in India (See Figure 1.). The leader in investments, if we take into consideration the cumulative value of FDI equity inflows from April 2000 – March 2008, was Mauritius. This state invested altogether USD 25,635 million which was 41% of the total inflow. The second biggest inflow came from the United States – USD 4,533 million and it constituted 7% of the total investment. Almost the same amount was transferred from the United Kingdom – USD 4363 million and Singapore – USD 4,357 million. These 4 countries invested as many as 62% of the total FDI equity inflow. They were followed by the Netherlands, Japan, Germany, Cyprus and others. The reason why Mauritius was the biggest investor is partly by historical connections and mainly by special taxation privileges which allowed the investors to lower taxation³³. Until 1990 European countries, with the UK on the head, were the major source of FDI inflows to India. Then relative importance has declined and simultaneously capital from the USA emerged as the most important. However, it must be underlined that this figure is deceptive, as a great proportion of British FDI, American FDI and others have been routed through Mauritius, as a result of the signing a favourable double taxation avoidance agreement. That enabled to take advantage of the latter's status as a tax haven³⁴.

Another important feature of FDI flows to India (including British) has been the emergence of mergers and acquisitions (M&As) as a major source of FDI. In 1997–1999, for example, 39% of inflows took the form of M&As, while in the pre-reform period FDI entry was invariably greenfield³⁵ in nature. This trend may have implications for the

³³ H. Hill, *Six Asian Economies: Issues and Lessons*, in: (ed) D.H. Brooks, H. Hill, *Managing FDI in a Globalizing Economy: Asian Experience*, Palgrave Macmillan, New York 2004, p. 48.

³⁴ *Ibidem*, p. 128.

In May 2008 the OECD completed the 4th edition of its Benchmark Definition of Foreign Direct Investment, which is the internationally accepted standard used for FDI statistics. Since 2003 it has been also used in Indian statistics. This revision of the definition provides better methods for classifying different types of FDI and for identifying the ultimate investor, which might be helpful while examining FDI statistics of Mauritius (www.oecd.org, 09.08.2008).

³⁵ A greenfield investment is a basic form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities. This is opposite to a brown field investment, mergers and acquisition of a company (see: P. Bożyk,

influence of FDI as greenfield FDI adds to the stock of productive capital and generates more favourable spillover effects³⁶.

4. The structure of British FDI in India

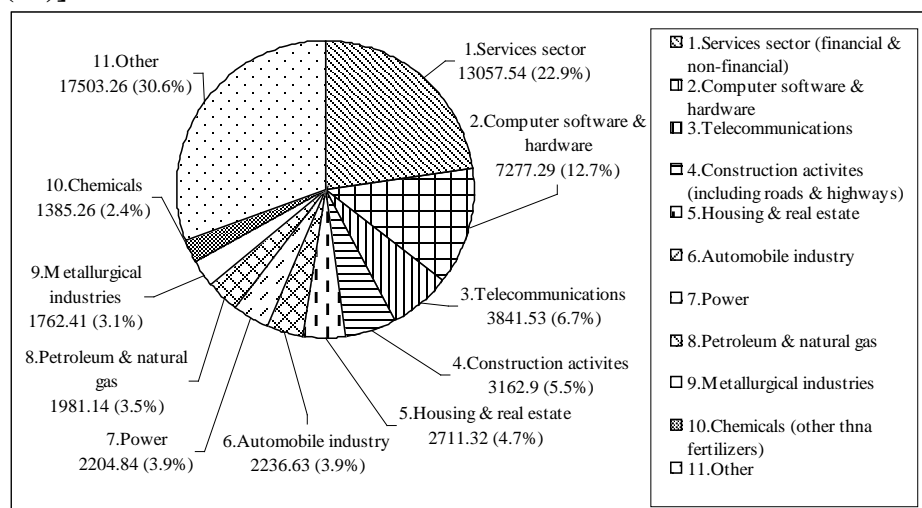
In view of the cumulative value of FDI equity inflows from April 2000 to March 2008 (see Figure 2.), the main sectors were service sector (22.9%) with value USD 13,057.54 million then computer software & hardware (12.7%, USD 7,277.29 million), and telecommunications (6.7%, USD 3,841.53 million). After mentioned above categories were construction activities (5.5%), housing & real estate (4.7%). Altogether, these sectors composed about 52.5%, which was about USD 30,050.58 million. The main area of interests by foreign investors should be considered positively as FDI equity inflows concerned in big part sectors producing more processed commodities or service sectors. This trend was consistent with British FDI inflows to India during examined years.

The structure of UK FDI to India increased and changed over the analysed period. The total value grew by 63% from 2002 to 2006 (in terms of GBP). It was around GBP 1,409 million in 2002 and in GBP 2,302 million in 2006. Investments by Great Britain dominated manufacturing industries and accounted for around 54% of all UK's investment in India, but this rule was changing because the role of services sectors have recently increased significantly.

Międzynarodowe stosunki ekonomiczne. Teoria i polityka, Polskie Wydawnictwo Ekonomiczne, Warszawa 2008, p. 105).

³⁶ H. Hill, *Six Asian...*, op. cit., p. 129. The term "spillover effects" is defined in economic literature as the additional benefits from FDI that raise the productivity level in the host country and where main beneficiaries are local enterprises and foreign entities are not directed compensated for them, for further examination see: A. Szczepkowska-Flis, *Wewnątrzbranżowe efekty spillover bezpośrednich inwestycji zagranicznych*, in: "Ruch Prawniczy, Ekonomiczny i Socjologiczny" 2008, no. 1, Poznań 2008, p. 171-184.

Figure 2. Indian sectors attracting highest FDI equity inflows [Cumulative value of inflows, April 2000 – March 2008, USD million; (%)]



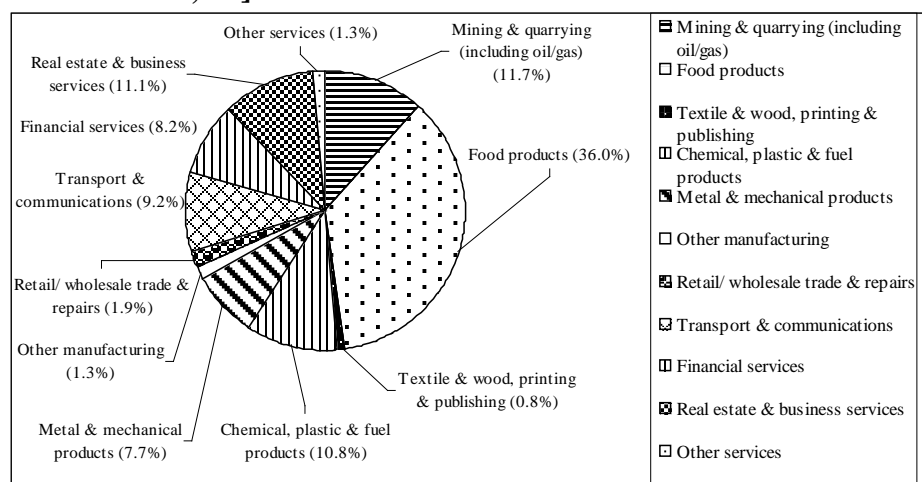
Source: www.dipp.nic.in (09.08.2008).

Manufacturing industries were dominated by food products – 36.0%, mining & quarrying (including oil/gas) – 11.7% and chemical, plastic and fuel products – 10.8% in 2006. The structure evolved as the process of liberalization of economy progressed. That is why, for instance, the British FDI appeared in mining & quarrying in 2006.

If we compare the structure of British FDI in 2002 and 2006, it must be noticed that the value of FDI in food production was on the same level each year. Investing in textile & wood, printing & publishing decreased by 80%. This might be considered positively, as inflows of FDI were put in a more advanced business. For example, financial services which value grew by 338% from 2002 to 2006 (in terms of GBP). Similarly, the value of Real estate & business services increased – about 597% and Transport & communication services – about 110%.

Nevertheless, the cumulative value of the British FDI from 2002 to 2006 was mainly in food products, than was the inflow of chemical, plastic & and fuel products. Altogether, it was more than 61% of the total value of FDI. Besides, considerably important were service sector of transport & communication, and accounted for 10.5%.

Figure 3. Sectors attracting highest British FDI inflows in 2006 [in terms of GBP; %]



* Manufacturing industries cover sectors 'Food products' to 'Other manufacturing' (SIC2003 codes 15 to 36).
 ** Non-manufacturing industries cover sectors 'Agriculture, forestry & fishing' to 'mining & quarrying (including oil & gas)' and sectors 'Electricity, gas & water' to 'Other services' (SIC2003 codes 01 to 14 and 37 to 99).

Source: A. White, *UK Foreign Direct Investment and Sector Impacts*, GHK and the Joint Nature Conservation Committee, Plymouth 2008; p. 40.

The UK is also reported to be one of the major contributors of technology to India with significant number of technical collaborations. Indian statistics about foreign technology transfer (see Table 3.) indicates the number of cumulative Foreign Technology Transfer (FTT) from August 1991 to March 2008. And 865 out of 7,062 approvals were from the United Kingdom (10.86%), which meant the fourth place, 1,779 approvals were from the USA (22.34%), 1106 from Germany (13.89%), and were 869 from Japan (10.91%)³⁷.

Table 3. Sector-wise FTT approvals (August 1991–March 2008)

Ranks	Sector	No. of Technical Collaboration approved	%age with total tech. approvals
1.	Electrical Equipments (including computer software & electronics)	1255	15.76
2.	Chemicals (other than fertilizer)	887	11.14
3.	Industrial Machinery	870	10.93
4.	Transportation Industry	747	9.38

³⁷ www.dip.nic.in (09.08.2008).

5.	Misc. Mach. Engineering	444	5.58
6.	Other sectors	3,759	47.21
Total of all Sectors		7,962	100.00

Source: www.dipp.nic.in (09.08.2008).

5. The regional structure of FDI in India

There were two regions attracting the highest FDI equity inflows. They concentrated around Mumbai³⁸ and New Delhi (see Table 4.). They both made 51% of total FDI equity inflows from April 2000 to March 2008. During this period USD 18291,2 million was invested in Maharashtra, Dadra & Nagar Haveli, Daman & Diu and it constituted 32.0%. Historical Gateway of India – Mumbai one more time became a centre of business in India. The second biggest place of foreign investors' interests was New Delhi (Delhi and a part of up Haryana), where as much as USD 10,848.8 million was invested (19.0%) from April 2000 to March 2008. The following was Karnataka State with Bangalore – the centre of the IT sector. It attracted USD 3,841.5 million (6.7%). Next were Tamil Nadu and Pondicherry States with USD 3,000.8 million (5.3%); as well as Gujarat with investments of USD 2,799.0 million (4.9%). In general, it was observed that the majority of investments concentrated in a few areas and the regional structure was very diverse. The poor infrastructure was the a main reason for that. In this case, activity of British capital was not an exception.

Table 4. Statement on RBI's regional office-wise (with state covered) FDI equity inflows (April 2000 – March 2008)

Rank s	RBI's – Regional Office	State covered	Amount of FDI Inflows (USD in million)	%age with FDI inflows
1.	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	18,291.2	32.0
2.	New Delhi	Delhi, part of Up and Haryana	10,848.8	19.0
3.	Bangalore	Karnataka	3,841.5	6.7
4.	Chennai	Tamil Nadu, Pondicherry	3,000.8	5.3
5.	Ahmedabad	Gujarat	2,799.0	4.9
6.	Hyderabad	Andhra Pradesh	2,257.6	4.0

³⁸ Former Bombay, the name of the city has been changed since 1995, is among the other the seat of a stock exchange and the Reserve Bank of India.

7.	Kolkata	West Bengal	788.4	1.4
8.	Chandigarh	Chandigarh, Punjab, Haryana, Himachal, Pradesh	384.2	0.7
9.	Panaji	Goa	224.4	0.4
Other regions			14,688.4	25.7
SUB. TOTAL			57,124.3	100
Stock Swapped			3,301.1	–
Advance of Inflows (from 2000 to 2004)			1,962.8	
RBI's–NRI Schemes			121.3	–
GRAND TOTAL (from April 2000 to March 2008)			62,509.5	–

Source: www.dipp.nic.in (09.08.2008).

According to the data from the Reserve Bank of India, the region with the most numerous FTC approvals from August 1991–March 2008 was Maharashtra State – 1,374 (17.26%, see Table 2.). It was distinctly the main area of FTC in India and it confirmed the crucial role of Mumbai as a centre of investments. The following were Tamil Nadu with 664 approvals, Gujarat with 610 approvals, Karnataka with 518 approvals and Haryana with merely 356 approvals. The last mentioned State, in comparison to Maharashtra, appeared relatively poorly and it reveals the diversity of the structure. Especially, if confront with total FDI equity inflows which was received by this region.

Table 5. State-wise FTC approvals (August 1991 – March 2008)

Ranks	State	No. of Technical Collaboration approved	%age with total tech. approvals
1.	Maharashtra	1,374	17.26
2.	Tamil Nadu	664	8.34
3.	Gujarat	610	7.66
4.	Karnataka	518	6.51
5.	Haryana	356	4.47
6.	Other States	4,440	55.76
Total of all States		7,962	100.00

Source: www.dipp.nic.in (09.08.2008).

Until recently the development of Special Economic Zones (SEZs) has been slow. Although, India created the first such a zone in Asia in 1965, only 8 of them existed by 2004. They provided merely 5% of goods' exports³⁹. The Indian government introduced a new policy in

³⁹ *OECD Economic Surveys: India...*, op. cit., p. 37-38.

2006 and as a result by February 2007 234 SEZ projects have been approved. The new policy focused on changes to the laws & regulations and it created:

- separate court system,
- single window clearance for development in the zone, simplified administrative procedures,
- modification to labour laws,
- total corporate tax exemption for 5 years, 50% for a following 5 years; exemption for reinvested earnings derived from exports, with developers allowed a 10 years window of tax exemption,
- imports into the zone are tax and tariff free, but sales to the domestic market are regarded as imports into India⁴⁰.

6. The major British investors and examples of their investments in India

British companies have made some significant investments in India. Many of them have a long-standing presence in India. Those are ICI, GlaxoSmithKline, GEC, Rolls Royce, British Aerospace, BP, British Airways, British American Tobacco, and Cadbury. There is also an increasing number of new UK companies entering into India, the most important of which include British Gas, National Power, National Grid, BT, Schell, United Distillers and Trafalgar House. All major oil companies are now present in the Indian oil sector. Schell entered the market for a second time in 1993 and set up Bharat Schell Limited – a joint venture with Bharat Petroleum Corporation Limited (BPCL). Shell invested around USD 1 billion in India, making it the largest international investment in India's energy sector, and in 2007, bought out BPCL's share. It opened a bitumen plant in India in 2006, as a result of plans for the building of the nationwide highway network⁴¹.

The British telecommunication sector has invested heavily in India, especially in establishing call centre operations in the country. UK's telecommunications companies include: BT, Vodafone, Virgin, Huges and Marconi & E-com. Cable&Wireless announced in February 2008 that they were awarded in joint venture with Indian TTK Group national and international long distance licences by the Department of Telecom-

⁴⁰ Ibidem, p. 37.

⁴¹ A. White, *UK Foreign...*, op. cit., p. 8.

munications. This agreement enables the company to offer services directly to Indian customers for the first time. Vodafone has acquired a controlling interest in Hutchinson Essar, one of India's leading mobile operators (the company invested USD 11 billion in 2007). The remaining 33% belongs to Essar, a large Indian corporation with interests in steel, oil and gas, power, telecommunications, shipping & logistics, and construction. Besides the mentioned companies, also Scottish and Newcastle, Powergen, Aviva, Johnson Matthey, Logica, Mark & Spencer, Standard Chartered Bank, PWC, Tesco, and Unilever have recently invested in the country. PWC won a contract in 2001 to work on the privatisation of the water supply in South Delhi. Unilever holds 52% of Hindustan Unilever Limited, the largest fast moving consumer goods (FMCG) company in India with 40 factories. In 2008 Marks and Spencer Reliance India Pvt. Ltd. received approval to invest about GBP 30 million and the same was with UK's supermarket group – Tesco, which started an initial investment of up to GBP 60 million in 2008. Institutional investors and fund managers as Jardine Flemings, HSBC, ANZ, Barclays, James Capel, Chescor and Touche Ross have also played a significant role in directing FDI into India to facilitate projects. British American Tobacco has acquired a 32% stake in ITC Ltd – the Indian Tobacco manufacturer which is also active in hotels, food, retail, personal care products and information technology. Many of British insurance companies, including Prudential, Commercial Union, Royal Sun Alliance, Eagle Star and General Accident, have signed “Memorandum of Understanding” with Indian companies and are ready to enter the Indian market. A large number of airport developments has been identified as one of British Airport Group's priority focus market. British companies have already started working on the Delhi, Hyderabad and Mumbai International Airports⁴².

Conclusion

With a population of around 1.08 billion and an annual growth rate of 9.2% in the FY 2006–07, India is the largest democracy and 4th largest economy (in terms of purchase power parity) in the world⁴³. Simultaneously it is still a developing country, since further reforms of the economy are expected. Nevertheless, economic transformation after 1991

⁴² Ibidem, p. 8-10 and www.ukinindia.fco.gov.uk (10.08.2008).

⁴³ www.uncdt.org (10.08.2008).

made it possible to begin FDI in India and to reinforce the long-lasting relationship with the UK. At the same time the inward FDI can without doubt be considered as an important factor contributing to Indian transition, leading to a much greater openness and an international competitiveness of the economy. The role of British capital in this process should not be underestimated as it turns out from the dynamics of FDI in India.

The sectoral spread of FDI, including British investments, showed the positive tendency, an increasing role of service sectors and decreasing role of manufacturing sectors. This was accordant to the global trends. While regional diversification of FDI should be treated as an important motive for intensifying policy measures to attract FDI inflows not only in several regions but in the whole country.

In comparison with the cumulative inflows of FDI to China during the same time, the Indian effect is still not satisfactory⁴⁴. But according to A. T. Kearney's 2007 (Foreign Direct Investment Confidence Index) India is 2nd most attractive investment destination for FDI for 2007–09⁴⁵. It might be confirmed by analysing the activity of British enterprises in India and their investments.

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⁴⁴ Compare: *OECD Factbook 2008...*, op. cit., p. 82.

⁴⁵ *World Investment Report 2007, Transnational Corporation, Extractive Industries and Development*, UNCTAD, United Nation, New York and Geneva 2007.

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