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FDI in India: Do New Delhi and state governments need to re-think strategies?

Introduction

Recently, India emerged as the top FDI destination in the world, attracting 63 Billion USD in 2015 according to the fDi intelligence Report (The Business Standard, April 22, 2016). As is evident from Table 1, while India has been successful in raising the level of FDI, over the past decade, (as a result of domestic and global factors, there was a dip in 2010, 2012, 2013 and 2014), what is especially significant, is that India has overtaken China for the first time in terms of attraction of FDI. This success is being attributed to a number of factors, ranging from the current Modi government's aggressive marketing of programs such as Make in India, liberalisation of FDI norms for 15 sectors in November 2015, enhancement in the ease of doing business, as well as the slowdown of China. It would be pertinent to point out, that one major contributor to India's success in attracting FDI in recent years is the increasingly pro-active role played by states in attracting Foreign Direct Investment.

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This aggressive outreach by state governments in India, began two decades ago in the aftermath of economic liberalisation.

Recent years have witnessed a steady increase in the involvement of states, due to the emergence of strong regional leaders. In the words of (Rudolph and Rudolph 2001:2):

‘The states have become the principal arena for private investment. Their competition for private investment has generated races to the bottom and to the top’.

While the first Chief Minister to reach out to the outside world was Chandrababu Naidu (currently Chief Minister of Andhra) in the late 1990’s, when he sought to make Hyderabad a global IT Hub (Rudolph and Rudolph 2001) the trend was followed by a number of other CM’s including current PM Narendra Modi, as Chief Minister of Gujarat Significantly, Naidu who took over as CM in 2014, of an Andhra Pradesh minus Hyderabad is now the capital of the new state of Telangana) has been equally pro-active in scouting for investments (Jha SK, January 10, 2016).

While in the initial stages, the method utilised by most Chief Ministers, was to reach out to investors by leading high-powered delegations (led by Chief Ministers) to countries including China, Japan and US. In the past decade and a half, a number of states have begun to utilize Investors Summits. This began with the vibrant Gujarat Summit in 2003 and a number of states including Tamil Nadu, Haryana, West Bengal, Madhya Pradesh and Punjab have followed suit (*The Hindu*, January 11, 2015).

This paper shall discuss in detail some of the steps being taken by state governments in the context of drawing FDI. It shall also discuss some of the shortcomings in India’s strategy towards attracting FDI, and whether India, especially it’s states, can draw lessons from other countries in attracting FDI.

Table 1: FDI received since 2007

Year	FDI Received in (USD Billion)
2007	34.8
2008	37.8
2009	37.8
2010	25.9
2011	35.12
2012	22.8
2013	22
2014	28.8
2015	61

Sources: DIPP (Government of India) and fDi Intelligence

State Governments and FDI

As discussed earlier, India received the highest FDI for the year 2015, (Karnik and Huang, April 22, 2016). The top performers in drawing FDI, over the past 15 years, have been Maharashtra, National Capital Region, Tamil Nadu, Karnataka and Gujarat (DIPP Website: http://dipp.nic.in/English/Publications/FDI_Statistics/2015/india_FDI_June2015.pdf).

While some states like Tamil Nadu, Maharashtra and to some extent Haryana do not have to be as aggressive in wooing investors, due to natural advantages such as Human Resources as well as strategic location, others have used a number of means to woo foreign investors. This includes visits by Chief Ministers where they hold road shows and reach out to investors including the Indian Diaspora, Investors Summits. As mentioned earlier this trend began with Chandrababu Naidu and was followed by Modi who visited Japan, China and Singapore (Sudhir, March 17, 2013). Other Chief Ministers have also followed suit, while Singapore,

which invests heavily in India, is a key destination since a number of states are seeking infrastructural investments and also seeking to emulate its success in areas like water. While a big project it is involved in is Amravati (Acharyulu, September 27, 2015), Rajasthan and Singapore signed an agreement on Urban Water Management (The Economic Times, February 25, 2015).

With the increasing focus on the neighbourhood, a number of Chief Ministers have also been seeking investments from neighbouring countries. The Tripura and Meghalaya CM, ManikSarkar and Mukul Sangma have been seeking to build strong economic ties with Bangladesh and taking advantage of the improved relationship (The Shillong Times, March 6, 2016)

Table 2: Top 5 FDI Destinations (April 2000 to December 2015)

	RBI Regional Data Office	Region Covered	Amount of FDI Received (USD in Millions)
1	Mumbai	Maharashtra, Dadra and Nagar Haveli, Daman and Diu	78,334
2	New Delhi	NCR Region (Delhi parts of UP and Haryana)	60,056
3	Chennai	Tamil Nadu and Pondicherry	21,282
4	Bangalore	Karnataka	19,516
5	Ahmedabad	Gujarat	12,518

Source:

DIPP Website: http://dipp.nic.in/English/Publications/FDI_Statistics/2015/india_FDI_June2015.pdf

Approach of the Modi Government

One of the key thrusts of the Modi Government led by a three time Chief Minister, NarendraModi, was to enhance the role of state governments in drawing FDI as well as cooperative federalism (states and centre working jointly) (*The Hindu*, January 11, 2015).

Already, some changes have taken place. Firstly, a number of states are keen to set up their own export councils, following a suggestion by the Prime Minister (*The Hindu Business Line*, August 16, 2014).

Second, a ranking of states in ease of doing business has been introduced, to enhance competition between states. The parameters on which states are assessed include: Establishment of a Business; Land Allotment and Obtaining Construction Permits; Compliance with Environmental Protocols; Compliance with labour laws, Obtaining Infrastructure Related facilities; Registration and compliance with tax procedures; Performance of Inspections and Enforcing Contracts (DIPP Website: December 11, 2015)

Third, more and more states are organising Investors Summits, some lag behind economically and in terms of Foreign Direct Investment. Clear instances of states which have not been successful, but are keen to attract FDI are West Bengal and Madhya Pradesh (Prachi, and Agarwal, April 4, 2016).

Fourth, a number of foreign dignitaries have been visiting towns besides the national capital. While the Chinese President visited Gandhinagar, Japanese President Shinzo Abe visited Varanasi the constituency of the Prime Minister. French President Hollandewas India's guest on Republic Day. It would be pertinent to mention, that even before Modi took over, US Presidents, Bill Clinton and G.W. Bush visited Hyderabad, while President Obama visited Mumbai, while Former Secretary of State Hillary Clinton visited Chennai – Tamil Nadu (2011) and Kolkata – West Bengal (2012) and met with the Chief Ministers of Tamil Nadu, J Jayalalitha and Mamata Banerjee West Bengal respectively (Beckett, May 16, 2012).

While all the above steps are encouraging, there are some discrepancies. The first is that there are a few selected countries that are amongst the top investors (Mauritius, Singapore). Second, only a few states receive the large share of the pie (Vyas, 2015), as is evident from the Table 2. Both these points have been highlighted not just by a number of economic experts, but also the Government of India's Economic Survey (2015-2016). The Economic Survey pointed out that 60 per cent of the 24.8 Billion for the period April-November 2015, was from Mauritius and Singapore. Similarly, between them Delhi, Haryana, Maharashtra, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh attracted 70 per cent of Foreign Direct Investment over the past 15 years (*The Economic Times*, February 26, 2016).

It would be appropriate to examine the ways in which other countries have utilized their provinces for drawing Foreign Investment.

Provinces and Foreign Direct Investment in other countries: Lessons to be learned

All the above means of attracting foreign direct investment are new to India, but have been successfully utilized by provinces in other countries, especially China. If one were to look at the reforms initiated by Deng Xiaoping, one of the significant impacts was an emphasis on Coastal provinces (Huang, Kuo, and Kao 2003)

The first impact of the reforms was felt by Coastal Regions, and led to the rapid development of a number of Provinces, such as Guangdong. Initially, these provinces focused on neighbouring countries.

In the words of Jacob (2014:5)

‘...South Korean investment particularly targeted the nearby northeast Chinese provinces of Shandong and Liaoning. Indeed, it is no exaggeration to say that South Korea has played as big a role in Shandong’s economic development as Hong Kong has in the case of Guangdong. By the end of 1992, the year that Sino-South Korean relations were normalized, some 85 per cent of South Korean investments had been targeted at the Bohai Rim and the northeast of China’.

In the next stage, from the 1990’s onwards China focused on interior provinces. For this reason, drawing investment from neighbours was not sufficient. Chinese provinces have played an important role not just in drawing investments from neighbouring countries. In fact in the China-US relationship, links between US states and Chinese Provinces have played a key role in strengthening economic ties. While visits by US Governors to China and vice-versa were common even during times of tension, in 2011 a Governor Dialogue was institutionalized (US Department of State Website: January 19, 2011).

Emphasizing the importance of these dialogues, Chinese President Xi Jinping while addressing one such forum stated (The China Daily, September 24, 2015)

‘Over the past 30 plus years, the growth of our relations has been achieved with support of local governments and their people. Going forward, it will continue to draw strength from and deliver benefits to them. The new momentum of dynamic growth of sub-national exchanges and cooperation between our two countries has been truly encouraging. Thirty-one Chinese provinces/regions/cities have established 43 sister province/state relations and 200 sister-city relations with 50 American states. Over the past 10 years, 42 American states have achieved triple-digit increases in their export to China’

An India-China Forum of State Provincial Leaders dialogue was also inaugurated by Prime Minister Modi and his counter part, Li Keqiang during his visit to China in 2015, and could prove to be very effective. Speaking on this occasion Modi stated (Aneja, A, March 16, 2015):

“A number of decisions can be taken quickly by the State governments. These interactions also make the State governments more sensitive and aware of the international dynamics and requirements,”

In addition to high-level delegations one more method used by both US and Germany to reach out to foreign investors is having Investment Promotion offices for states and Landers. Kaiser (2005:98) commenting on this increasing trend stated:

‘Subnational governments seem to establish foreign offices either in export markets and/or in regions which have a compatible economic structure. California, for example, opened three new trade and investment offices in Shanghai, Singapore and Argentina in the year 2000. The German state of Bavaria has expanded its presence in North America since the end of the 1990’s by establishing new offices in Palo Alto and Montreal and has thus complemented existing inter regional agreements with California and Quebec with local representation’. Interestingly, Chief Minister PM Modi had taken this issue with the Ministry of External Affairs (Antholis, March 16, 2012).

Even sister city and sister province relationships have played an important relationship in expanding economic ties between China and US, especially during the recession. Examples include Prince George’s County in Maryland and Beijing (China) (Farmer, L, August 28, 2014).

Changes needed in the approach of state governments towards FDI

The first change that India should envisage is that the “one size fits all approach” will not work in a vast country, and apart from the current thrust on drawing heavy investment in the manufacturing sector, there are states which have immense potential in drawing investments in the service sector – which includes not just IT, but also hospitality and tourism. States in North Eastern India should focus, for instance, on not just attracting more tourists, but also greater investment in the tourism and hospitality sector. The state of Rajasthan also attracted significant amount of investment in tourism during the Resurgent Rajasthan Summit in November 2015 (The Financial Express, November 23. 2015).

Second, in the economic sphere there should be a clear regional thrust, so every state doesn't need to focus on too many countries, therefore establishing some target countries might be more effective. A number of states have begun to focus on a few countries depending upon their synergies not just in terms of FDI, but other areas. For instance, in the Rajasthan Investors Summit in 2015, there was a special focus on countries like Japan and Singapore, which were closely working with the state government. Singapore is also helping in infrastructural development, and one of the areas where Rajasthan and Singapore are working is development of smart cities. In fact, a MOU has been signed between 'SCE Singapore Cooperation Enterprise and the Rajasthan Housing Board for developing the master plans of Jodhpur and Udaipur' (Resurgent Rajasthan Website, November 20, 2015).

Third, India is seeking to learn from the China Model, and one step taken in this direction is the setting up of Export Councils, but it is also important at a certain stage to incorporate 'trade representatives' like the US and Germany have. Initially, there will be opposition to this given the fact, that Foreign Policy is part of the Union List in the Indian Constitution, but within the Indian Embassy, states having their representatives could be one way.

One thing is for sure to increase the role of state governments in Indian Foreign Policy, and new ways will have to be found to ensure active participation of states in economic ties with the outside world.

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