



THE HINDU CENTRE

for

Politics and Public Policy



India and Foreign Direct Investments: The Need for Strong Internal Synergies

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Nov 27, 2015



Tamil Nadu Chief Minister J Jayalalithaa addressing the inaugural session of Tamil Nadu Global Investors Meet, 2015. File photo: R. Ragu

With Indian States reaching out for foreign direct investment, Tridivesh Singh Maini points out that though investors' summits are important, States should not follow a predictable path, as each State has its own strengths. Moreover, it is important for the Union government to encourage more dialogue between States and other sub-regions/local governments that have similar strengths to examine synergies, so that benefits can be spread out across more than one State.

Over the past two decades, India's State governments have sought a number of ways to attract investors – foreign and domestic – to their respective States. This includes high profile delegations to international destinations led by

Chief Ministers. More recently States have begun to organise investors' summits. The trend began over a decade ago with the first summit being the Vibrant Gujarat Summit in 2003. Recently three States held investors summits – Tamil Nadu, Punjab and Rajasthan.

Prime Minister Narendra Modi has been encouraging States to compete for Foreign Direct Investment (FDI), and to play an important role in making programmes such as 'Make in India' a success. It is encouraging to note that it is not just the States that have already attained reasonable success in attracting FDI (such as Gujarat, Maharashtra and Tamil Nadu) that are making concerted efforts for seeking foreign direct investment, but even those that have lagged behind in terms of industrialisation, such as West Bengal, Madhya Pradesh and Rajasthan.

Investors' summits and beyond

West Bengal organised an investors' summit in 2015 which was attended by the Union Finance Minister, Arun Jaitley, and the Union Transport and Waterways Minister, Nitin Gadkari. The Chief Minister of West Bengal, Mamata Banerjee, had also led a number of delegations to countries including U.K. and Singapore ¹.

Madhya Pradesh and Rajasthan earlier clubbed as BIMARU States too have become pro-active in this sphere and both organise investors' summits. The Prime Minister inaugurated the Madhya Pradesh Investors' Summit last year in October 2014.

The resurgent Rajasthan summit was held in 2015 and a number of foreign investors were present, while the two partner countries were Japan and Singapore. The investors summits also focused on some of the key schemes like Made in India, Skill Development and apart from seeking foreign investment, possibilities of collaboration in issues like health and tourism were also examined. The Chief Minister of the State, Vasundhara Raje Scindia, stated that investments to the tune of Rs. 3.3 lakh crores (\$65 Million) which would generate 2.5 lakh jobs ² were signed. A number of domestic groups also committed to investment in the State. Over the past year, Rajasthan has been able to increase FDI. Between March-April (2013-2014) and March-April (2014-2015) FDI increased from \$38 Million to \$541 Million ³. An ADB Survey titled, Rajasthan Investment Climate Assessment survey found that 80 per cent of respondents were satisfied with the overall business climate in the State ⁴.

Though efforts towards attracting investment are welcome, a few issues need to be addressed to ensure that all the steps being taken are meaningful. First of all, while State governments flash big numbers to show their successes, it is important to do a serious appraisal of the actual amount of investment, they actually receive ⁵. As columnist Swaminathan Aiyar observed:

'... the barest look at hard investment data shows that only a small fraction of investment pledges — Industrial Entrepreneurs Memoranda (IEMs) or memoranda of understanding (MoUs) — actually fructify. Some states attract plenty of investment without jamborees, while other states with lots of ballyhoo don't attract much. Probably most, or all, actual investments would have come about with no investor summits at all'⁶.

A good example is Punjab, where in December 2013, 117 MoUs amounting to Rs. 65,000 crore were signed, yet many of the companies that had signed these MoUs did not even submit proposals and there has actually been a dip in investment received. While in 2007-2008, Punjab received investment worth Rs.36,500 crore it declined to Rs. 2,600 Crore in 2014-2015 ⁷. Currently, such discussions are influenced by politics, and used by one political party to outwit another.

Second, it is equally important to take a note of policy changes which State governments introduce as a consequence of pressure from investors – both domestic and foreign. While multi-laterals, consultancies, think-tanks, scholars and analysts do go deep into these issues, there is need for a more serious follow up, in the media not with the intention of criticising governments. The *Ease of Doing Business Report* brought out by KPMG, World Bank, CII and FICCI which identified a number of parameters is a useful step in this direction.

Third, the presence of senior Ministers, especially the Prime Minister at investors' summits held by States in eastern and northeastern India would be especially important to send right signals. The PM has on innumerable occasions spoken on the need to reduce regional disparities. So far it is only a few States that have benefited from Make in India. Some of the major investors who have made commitments are Xiaomi and Foxconn, and they have chosen the States of Andhra Pradesh and Maharashtra respectively for their investments, which are already amongst the more progressive States [8](#) .

Fourth, apart from disparities between States, it is also important to address disparities within them. Currently, there are disparities even within States. While the capital city or the commercial hub of the State where the summits are held are already developed, there are parts of these States which have not reaped the benefits of economic development, due to not getting adequate attention.

A perfect instance is Tamil Nadu, where for long southern Tamil Nadu has struggled to draw investment in comparison to areas closer to Chennai. In the recent investors summit though investors committed Rs. 97 lakh crores of the total 2.42 crore to this belt [9](#) . In other States like Maharashtra, Telangana and Andhra Pradesh too, the problem of skewed development needs to be addressed, and policies which encourage FDI to areas which have been ignored need to be drawn up. In Andhra Pradesh for instance, it has often been argued that Chief Minister Chandrababu Naidu has excessively focussed only on developing the new capital city of Amaravati, and neglected Rayalseema [10](#) .

Though investors' summits are an important means of reaching out to potential investors, there is a danger, that States will start following a predictable path and the one-size-fits-all approach may not work. Each State has its own strengths. In this context, it is important for the Union government to encourage more sub-national dialogue between India's States and other sub-regions/local governments which have similar strengths to examine synergies in non-economic areas, such as education, agriculture, environment and tourism.

While the U.S. and China have such a mechanism, India too has begun such a dialogue with China, it is important to examine such a dialogue with other countries, so as to ensure that more than one State benefits. If one were to look at India's links with U.S., a number of States such as Andhra Pradesh and Telangana (more recently) have reached out to California, with the focus being on Information Technology. California is also home to a prosperous Punjabi diaspora, which has excelled in farming, and would be keen to contribute to the growth story in India, but has not been tapped sufficiently.

It is encouraging to see, that New Delhi is beginning to look at States as partners in India's quest for FDI. It is equally important for New Delhi to address the problem of skewed growth, and take the required measures to ensure that it is not merely States in western and southern India, which are the drivers of India's growth and prosperity, that stand to gain. It is also imperative to ensure that India benefits in sectors such as Agriculture, Education and Health, through interactions with the outside world.

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