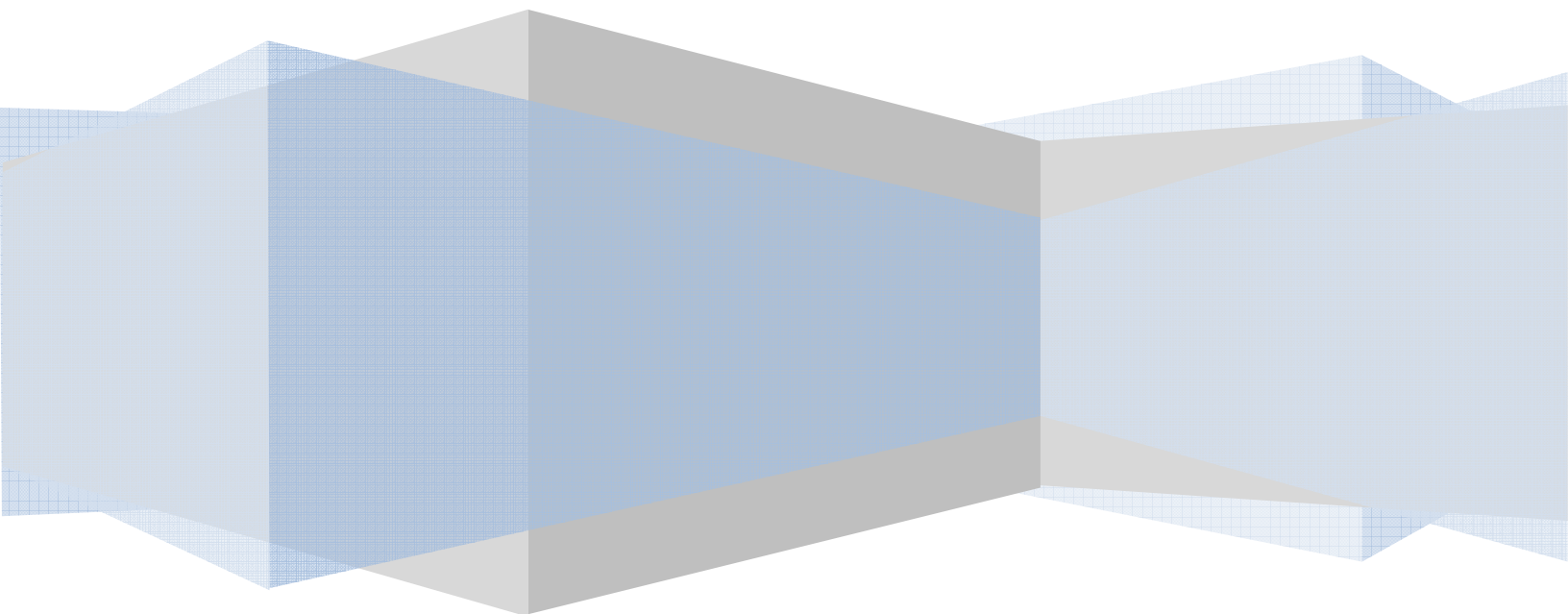


**FICCI**

**Foreign Direct Investment  
Survey 2010**

December 2010



**FICCI, Federation House, 1, Tansen Marg, New Delhi**

## FICCI Foreign Direct Investment Survey - 2010

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## FICCI Foreign Direct Investment Survey - 2010

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### Highlights of the Survey

#### India....a good destination for profits

- ✚ **Majority of the foreign investors in India are successful in making profits** in their operations as well as in **realizing the profitability targets set for their India operations**. 62 percent have reported making profits in their Indian operations. And within this group, nearly 70 percent have been successful in meeting their profitability targets. The spread of these profit making firms is broad based and not restricted to just a few sectors.

#### India...to see expansion of MNC activity

- ✚ **An impressive 91 percent of the respondents perceive that there exist opportunities for greater FDI in their own sector over the next 3 to 5 years**. The fact that foreign investors are looking at India as an important market for the future is reinforced by the fact that an equal proportion i.e. **91 percent are considering expansion of their Indian operations**.

#### India...could emerge as a manufacturing and export hub

- ✚ Following the global economic crisis, a shift is taking place in manufacturing industry from high cost centres in the west to low cost centres in the east. In such a scenario, **almost 88 percent of the respondents feel that India can emerge as a significant manufacturing and export hub for global companies**.
- ✚ **Buoyant domestic market growth rate** - an inherent strength of our economy - has been one of the **main attractions for FDI companies**. A large proportion, nearly 87 percent, have rated market growth rate in India as 'high'.
- ✚ In fact **capitalizing on the growing domestic market** is the top reason why MNCs are planning to expand their operations in India. The next two important motivating factors for FDI companies considering expansion of their India operations are **developing new product lines and increasing exports from India**.

#### China could lose some of its attractiveness as an investment destination

- ✚ **Recent developments in China** – a series of strikes affecting operation of select MNCs, subsequent wage hikes, expectation about appreciation of the Yuan and efforts to recalibrate growth strategy away from exports towards domestic demand – **could lessen the importance**

of China as an attractive investment destination in the long run according to half of the survey respondents. The other half however does not concur with this view.

- ✚ Majority 75 percent of the firms however expect some amount of FDI flows to China to divert to other EMEs including India in the short run.

### Government should do more in its outreach efforts

- ✚ While evaluating the efforts made by the government to attract greater FDI into the country, current investors gave the government machinery a rating of 'average'. Even the **awareness about the consolidated FDI policy document brought out earlier this year amongst foreign investors is not very high** with about 49 percent being unaware of it. Several companies have suggested that government should improve its performance in terms of its **outreach efforts to court foreign investors**.

### Infrastructure still needs a lot of improvement

- ✚ The **infrastructure facilities** in the country other than telecom and bandwidth availability leave **a lot to be desired**, according to foreign investors. The analysis of the responses received reveal that foreign investors are most dissatisfied with the situation relating to power and roads & highways with 86 percent and 75 percent rating these facilities as 'bad'.

### So do procedural reforms

- ✚ The time consuming systems and procedures to be complied with, the bureaucratic layers and the multiple bodies to be dealt with lead to time and cost overruns. **Procedural delays** have accordingly been rated as 'quite to very serious' by 93 percent of the respondents and has been regarded as the most serious impediment to FDI investments in India.

### Investors' views on FTA / CEPA

- ✚ Although India has entered into FTAs and CEPA with a number of countries, a **majority 82 percent** of the companies have reported that they have **not been impacted by any of the FTAs**. Only a small proportion - 18 percent - said that these agreements have had some affect on their operations. Being able to import goods at attractive prices from countries within these frameworks as well as higher export volume to India's partner countries are the two positives pointed out by the companies.

### Investors' views on minimum public float notification

- ✚ Majority of the surveyed foreign direct investors felt that the new policy directive of Government of India requiring all listed companies in India to have a minimum public float of 25

percent is a **positive step and would lead to greater public participation**. It would result in greater accountability and transparency and thus help in creating a positive business environment along with higher investment potential.

### **Key messages to the government**

#### **✚ The key messages FDI investors want to deliver to the government for bringing improvement in India's investment environment are**

- ♣ Rationalization of the tax structure
- ♣ Simplification of procedures for flow of funds
- ♣ Modernization of government systems and reduction in bureaucracy
- ♣ Improvement in infrastructure facilities
- ♣ Rationalisation of labour laws
- ♣ Liberalization of employment visa rules

## FICCI Foreign Direct Investment Survey - 2010

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### About the Survey

In continuation of its efforts to improve the investment environment in India and promote India as a leading FDI destination, FICCI (Federation of Indian Chambers of Commerce and Industry) conducted the present survey with a view to assess the experience of foreign direct investors in India.

Over the last few years, India has emerged as a key destination for foreign investors. Its strong growth performance, a large and growing domestic market, a large pool of technically qualified manpower and robust regulatory structures are some of the factors that make India a top choice for investors across the globe. Additionally, we see that the government is also continuously trying to improve the investment environment, addressing investor concerns and enhancing the ease of doing business in India.

Although over time several policy and procedural impediments to investments have been addressed, yet there are areas which require more work if investment intentions are to convert to investment flows on the ground. The present survey has been undertaken to understand the opinions and perception of foreign investors presently operating in India and to bring forth the impediments to investments in India. The survey endeavors to help make India a better investment destination by identifying the factors that hamper FDI inflows into India.

## FICCI Foreign Direct Investment Survey - 2010

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### Methodology

A comprehensive survey questionnaire was prepared to identify the concerns and issues of the foreign investors as well as to understand their priorities with respect to India. Investor feedback was requested on a variety of issues such as the operating environment in India, market conditions in India and quality of infrastructure facilities in place. The questionnaire also required the respondents to make a comparison at the sub-national level.

Besides these, the questionnaire also included a section on how MNCs managed their Indian operations during the global crisis and whether the crisis has altered their India plans in any way.

Finally, as recent developments in China - labour unrest, wage hikes and Yuan appreciation - can have a material impact on FDI flows in the region, views were sought with regard to these developments as well.

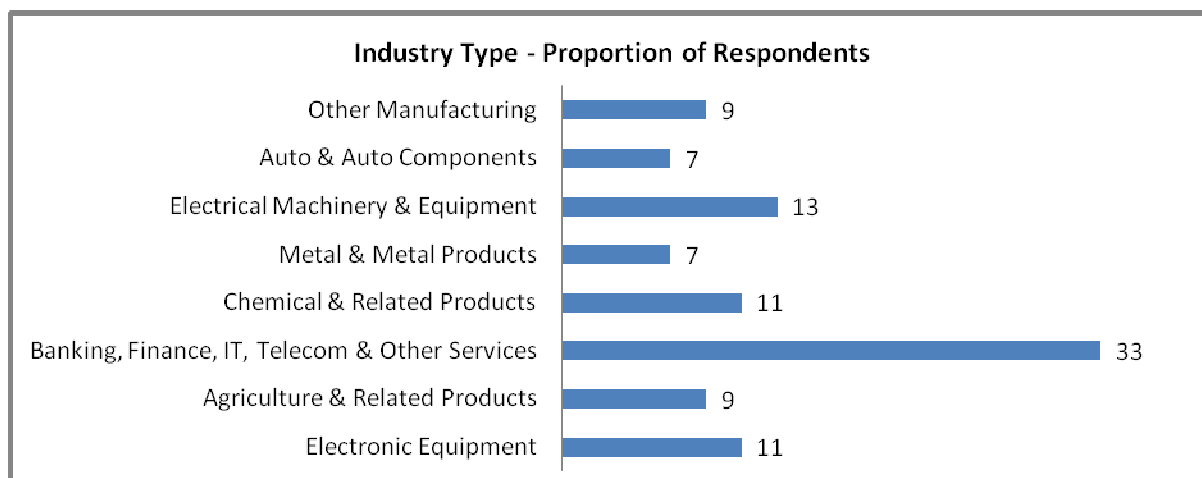
In order to get adequate representation from all parts of the country and across various sectors a dedicated database was prepared. The questionnaire was mailed / faxed / couriered to each one of the potential respondents.

A total of 1100 companies were contacted. The response rate was 10 percent with completed questionnaires received from 108 companies. Individual responses were then tabulated, aggregated and analyzed.

## FICCI Foreign Direct Investment Survey - 2010

### Survey Respondent Profile

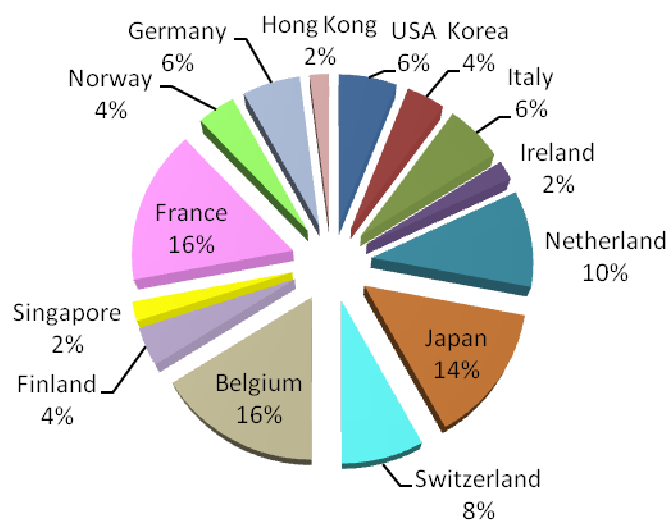
The respondent profile based on industry type, annual turnover, country of origin, years of operation and mode of entry in India is given below.



**Industry Type** – The respondents to the survey span a wide range of activities. The share of companies belonging to the ‘banking, finance, IT, telecom & other services’ category was the highest with almost one-third of the respondents belonging to the same. While 13 percent of the respondents belong to the ‘electrical machinery and equipment’ segment, ‘chemical and related products’ and ‘electronic equipment’ segments accounted for 11 percent of the respondents individually. Companies producing ‘auto and auto components’ and companies producing ‘metal and metal products’ formed the minority of the sample space, with contribution of about 7percent each.

**Company Turnover** – A large proportion of the respondents to the survey are small and mid-sized companies with turnover ranging from USD 0.01 million to USD 500 million. 41 percent of the respondents belonged to the category of companies, which had a turnover between USD 0.01 million and USD 15 million, and about 50 percent belonged to the category of companies with turnover between USD 15 million and USD 500 million. Large companies, with an annual turnover of more than USD 500 million accounted for 9 percent of the surveyed units.

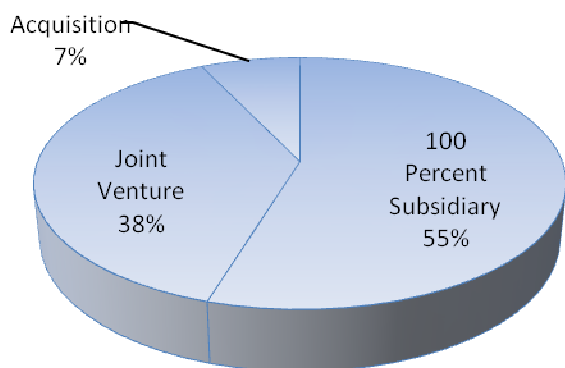
Turnover in USD million	Percentage of Respondents
0.01 - 1	3
1 - 15	38
15 - 100	32
100 - 500	18
500 and above	9



**Country of Origin** – The surveyed firms represent a good mix in terms of country of origin of FDI. The highest number of firms that participated in the survey traced their origin to France and Belgium (16 percent each). This was followed by Japan (14 percent), Netherlands (10 percent) and Switzerland (8 percent). Next in line are USA (6 percent) and Germany (6 percent). Some of the other countries represented in the survey include South Korea, Singapore, Hong Kong, Ireland, Finland and Italy.

**Years of Operation** – In terms of years of operation in India, we find that the surveyed firms again represent a good mix of relatively new entrants and long term players. While 35 percent of the surveyed firms have been in the India market for less than 5 years, about 20 percent of the firms have been operating in India for over 20 years.

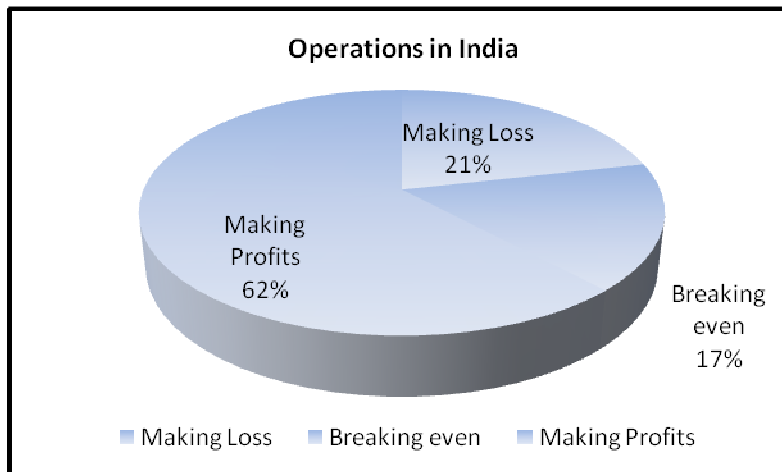
Number of years in India	Percentage of respondents
0 to 5	35
5 to 10	14
10 to 15	30
15 to 20	2
20 and above	19



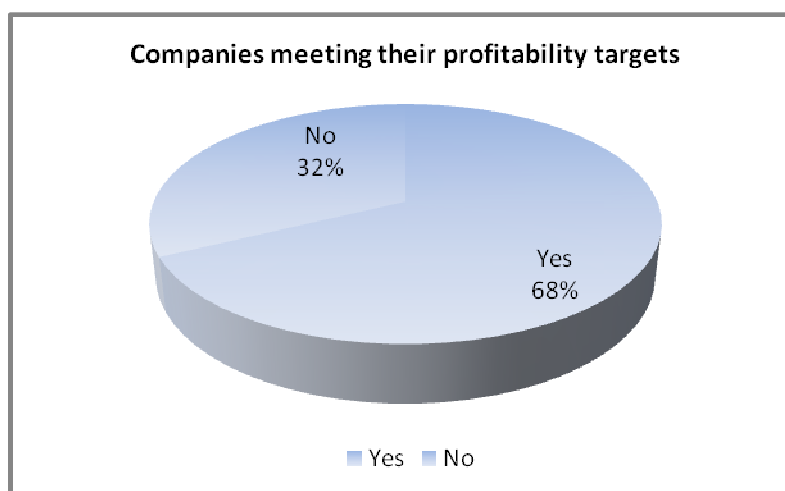
**Mode of Entry** – Majority of the respondents are those firms that have entered India as 100 percent subsidiaries of the parent company. 55 percent of the respondent companies belong to this category. Companies entering through the acquisition route have a fairly less representation with only 7 percent of the respondents belonging to this category. The remaining 38 percent of the firms entered India through the Joint Venture route.

## FICCI Foreign Direct Investment Survey - 2010

### Survey Results – Performance Indicators



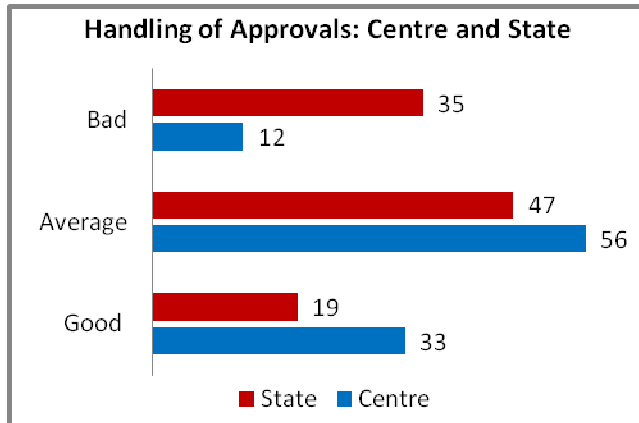
**Profits** – A large number of respondent foreign direct investors i.e. 62 percent reported that they were making profits in their current operations in India. This is an encouraging number particularly when one views it in light of the fact that a large number of companies that reported making losses in their India operation (21 percent) belong to the category of firms that have been operating in India for less than 5 years. In other words, these results show that India emerges as a profitable destination over a longer term.



**Profitability Targets** – A majority 68 percent of the respondents said that they met the profitability targets of their Indian operations in the previous year (2009). However, the remaining 32 percent could not realize their profitability targets. Viewed in light of the global crisis that shook the world recently, these numbers are encouraging.

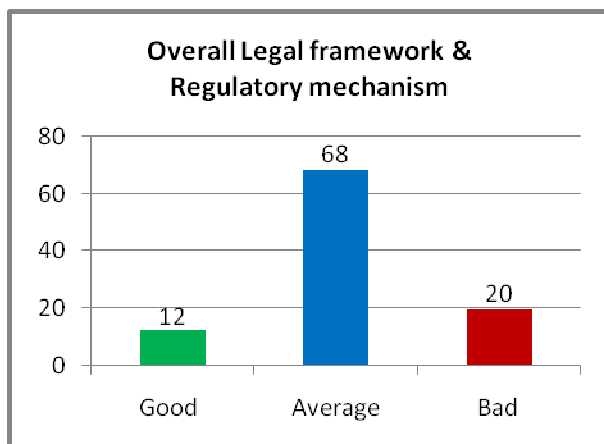
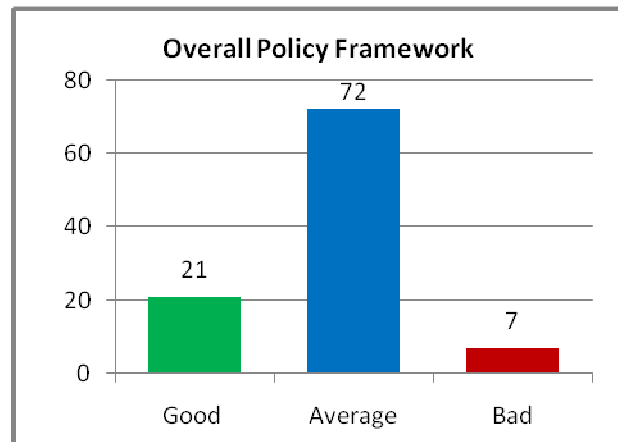
## FICCI Foreign Direct Investment Survey - 2010

### Operational Parameters

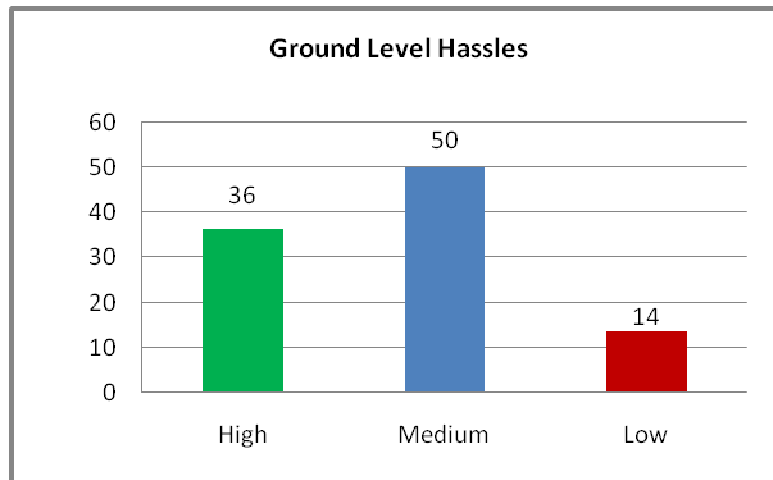


**Handling of Approvals** – With higher number of approvals to be handled at the state level, the participating companies expressed greater level of dissatisfaction at the state level than at the central level. While 89 percent of the respondents find the handling of approvals ‘average to good’ at the Center, about 65 percent gave the same rating at the State level.

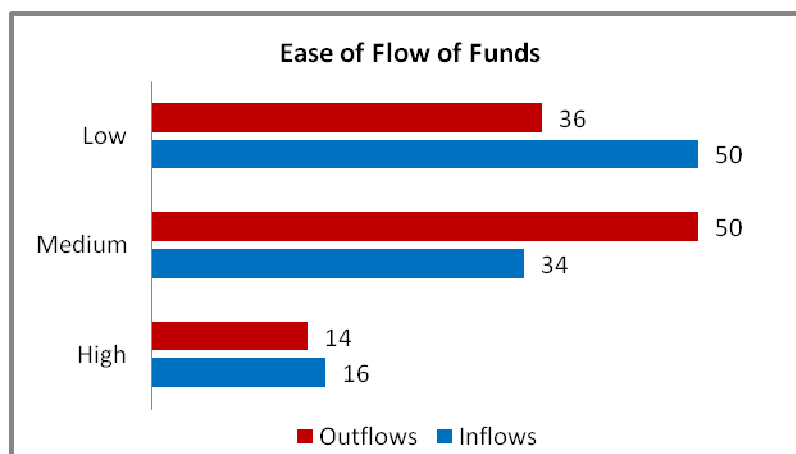
**Overall Policy Framework:** An overwhelming 93% of the participating investors expressed satisfaction with the overall FDI policy framework by rating it as ‘average to good’, while only 7% of the respondents considered the same to be ‘bad’. Although this is a positive result, still there is much needed to be done to convert the average responses to good responses.



**Overall Legal Framework and Regulatory Mechanism:** Investor’s review of India’s legal framework and regulatory mechanism shows a level of comfort at their end with 68 percent of the participating companies rating the overall legal framework and regulatory mechanism to be ‘average’, while 12 percent rate it as ‘good’. However there is still a sizeable proportion of 20 percent rating the overall legal framework and regulatory mechanism as ‘bad’



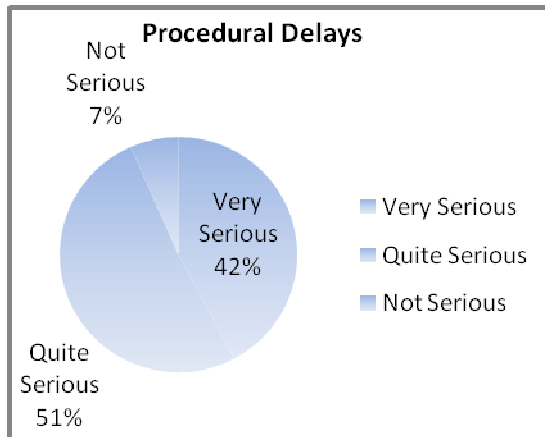
**Ground Level Hassles** – The survey results evidently show that ground level hassles are a severe impediment for the foreign direct investors with only a miniscule 14 percent reporting that the ground level situation is comfortable. Whether in respect of getting clearances and approvals or multiplicity of procedures to be complied with at the ground level, 86 percent of respondents find ground level hassles to be ‘medium to high’.



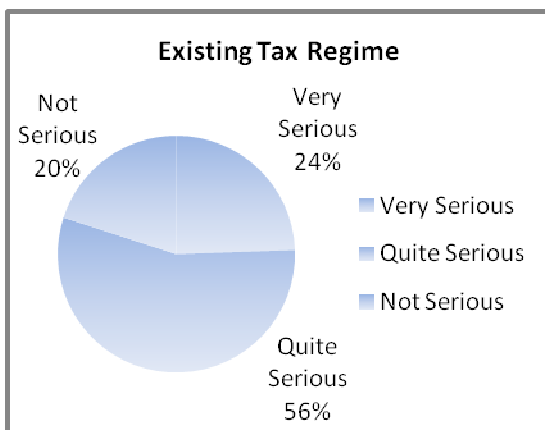
**Flow of Funds:** The hurdles in bringing in funds into India have been rated as ‘low’ according to 50 percent of the respondents while only 16 percent find the hurdles for inflows to be ‘high’. On the other hand while only 14 percent of the respondents found the ease of repatriating funds from India to lie in the ‘high’ category, 36 percent perceive ease of repatriation of funds to be ‘low’. These results clearly show that there is an evident gap between the ease with which companies can bring in funds into India and the ease with which they can repatriate funds, with the former being more favorable.

## FICCI Foreign Direct Investment Survey - 2010

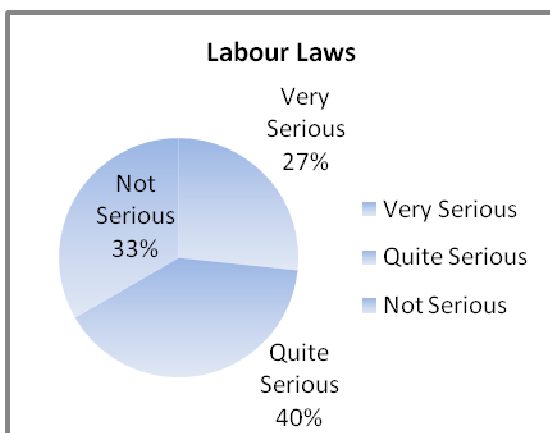
### Problem Areas



**Procedural Delays** – Procedural delays are bothering nearly all of the respondents with almost 93 percent of the respondents indicating this issue to be ‘quite to very serious’. The time consuming systems and procedures to be complied with, the bureaucratic layers to be dealt with and the multiple bodies from which clearances are to be obtained – all add up substantially to the transaction cost involved and take up a lot of management time thus making it an issue of serious concern for the investors.



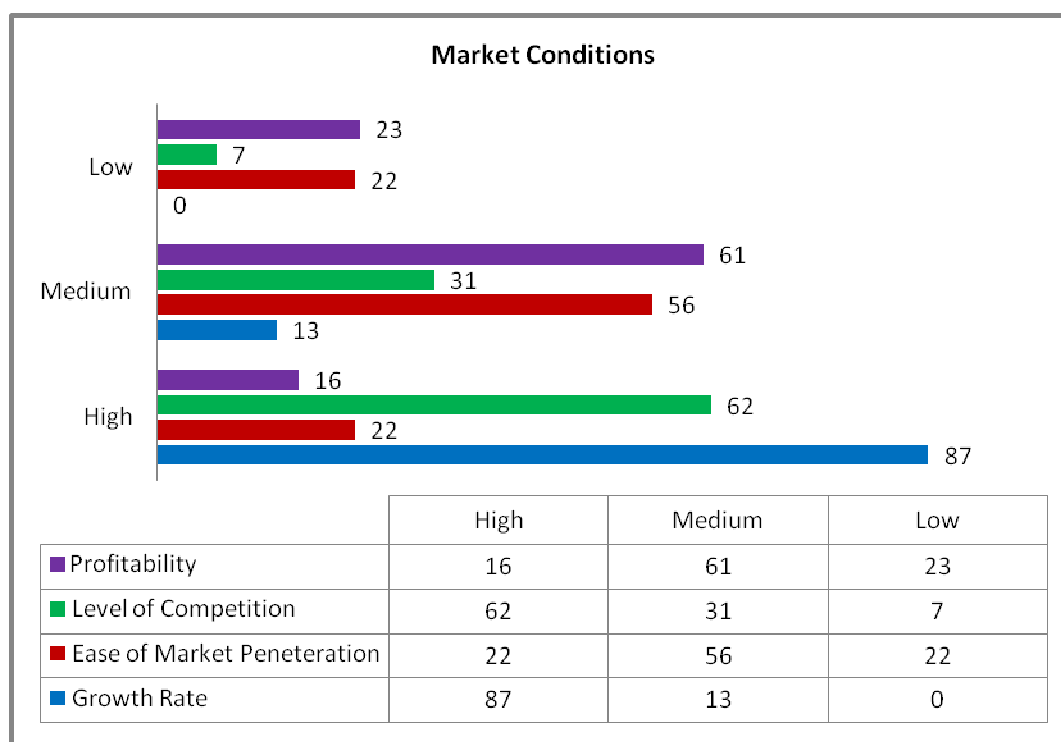
**Tax Regime** – The existing tax regime has been assessed as a problem area by majority of the respondents of the survey. While 24 percent of the respondents pointed out that the present tax regime is a ‘very serious’ issue, a larger chunk of 56 percent feel it to be a ‘quite serious’ issue. Thus they together add up to 80 percent of the foreign direct investors who believe the problems on account of existing tax regime to be ‘quite to very serious’.



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## FICCI Foreign Direct Investment Survey - 2010

### Market Conditions



**High growth rate, somewhat difficult market penetration, intense competition and consequent pressure on profitability margins – this is how the Indian market has been evaluated by the foreign investors.**

**Growth Rate** – Foreign direct investors have shown a lot of confidence in the healthy growth rate of the Indian market with 87 percent of the responding companies rating growth rate of Indian market to be ‘high’. This is a sizeable proportion and underlines the fact that India today is one of the fastest growing markets in the world. During the period of global economic crisis, Indian economy showed its resilience and its growth performance was affected in a limited manner. And once the global economic situation started improving, India was one of the few countries that quickly returned to their pre crisis growth trajectory.

**Market Penetration** – Given the intense competition in and the diversity of the Indian market, the general perception of the investors is that ease of market penetration is somewhat moderate. 22 percent reported the ease of market penetration to be ‘low’ while an equal proportion also felt it be ‘high’. A larger chunk of 56 percent felt that the ease of market penetration in India is ‘average’.

**Level of Competition** – The increasing importance of India as a fast growing economy and an attractive investment destination has led to a spurt of new investors coming into India. And this, in addition to the fact that domestic competition is also high, has made intense competition a characteristic of the Indian market with more and more players trying to capture a part of India’s market potential. This fact is again highlighted by a large proportion (nearly 62 percent) of investors who have reported market conditions in India to be ‘highly competitive’.

**Profitability** – Profitability in the Indian market is seen as ‘medium’ by 61 percent of the respondents while 16 percent rate it as ‘high’. Taking these findings in conjunction with the earlier finding that 62 percent of the respondents are making profits in their Indian operations, one can say that Indian market is one of the few markets that continue to offer reasonable profit making opportunities, even in these times of a global slowdown.


## FICCI Foreign Direct Investment Survey - 2010

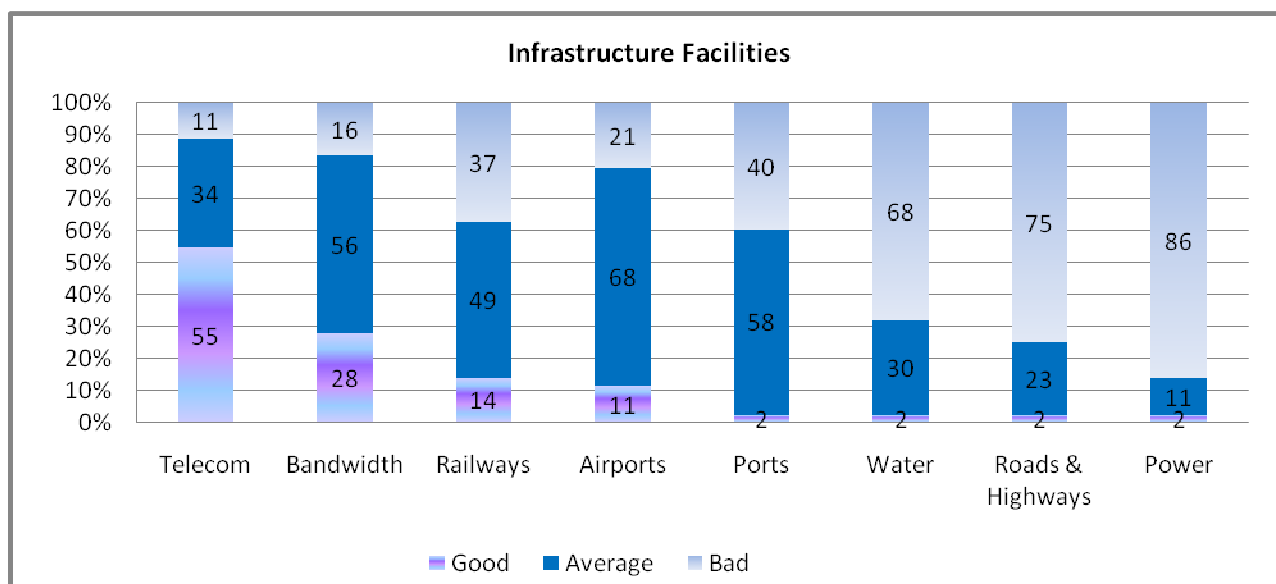
### Infrastructure Facilities

Quality and availability of infrastructure facilities are the most critical factor determining the quantum of investment flows into any country. In India, successive governments have given due attention to this fact and have focused on upgrading India's infrastructure facilities to international standards. Much of these efforts have already translated into visible signs of improvement in a few sectors notably telecom and bandwidth availability. However, there is still a lot that remains to be done and our present survey shows that the perception about the overall state of the Indian infrastructure facilities amongst foreign investors is not very encouraging. As captured in the present survey, the following section contains the observations of the foreign direct investors, on the prevailing state of facilities in India in the fields of roads and highways, ports, airports, railways, telecom, bandwidth, power and water.

#### Investors' Rating of Infrastructure Facilities

Rank	Facility
1	Telecom
2	Bandwidth
3	Railways
4	Airports
5	Ports
6	Water
7	Roads and Highways
8	Power





**Telecom** – The improvement in telecom facilities in India has been recognized by the foreign investors and they seem to be satisfied with the state of the country’s telecom network- its reach and quality. It is heartening to note that 89 percent of the respondents have rated telecom facilities in India to be ‘average to good’.

**Bandwidth** – Bandwidth availability has been rated as ‘average’ to ‘good’ by a sizable 84 percent of the respondents. Further improvements in bandwidth availability would help India consolidate its position as the IT superpower of the world.

**Railways** – Distribution reach, cargo movement and its safety also need some large scale improvement. About half of the respondents echoed that the railways facility in the country is ‘average’ while another 37 percent said it was unsatisfactory. Ensuring smooth movement and timely delivery of goods is very essential for efficient functioning of an organization, and thus a major concern for the investors.

**Airports** – Indian airports do not compare favorably with their counterparts abroad. Concerns about airports in particular relate to service conditions, processing speed, cargo handling and hygiene factors. Though 79 percent of the participants rated the airport facilities in India to be ‘average to good’, only 11 percent thought it was ‘good’.

**Ports** – Ports in India have also emerged to be quite unsatisfactory as conveyed by the participating foreign direct investors. 40 percent of the participating companies consider the same to be ‘bad’, another 58 percent of the surveyed firms reported that port facilities in India was just ‘average’. Indian ports seem to have been plagued by congestions, long cargo dwell time, slow turnaround, delay and high cost involved in cargo handling and the high probability

of cargo damage, and it is time to take vital steps towards eradicating these problems in a time bound manner.

**Water** – Scarcity of water has been cited as a severe problem by 68 percent of the respondents. Water is an essential input in all-manufacturing activities. Water is used as an input in industrial boilers and coolers, effluent treatment plant, waste discharge and for washing and refining of raw materials. Given the several uses to which water is put, such a negative experience is a worrying factor.

**Roads and Highways** – The condition of roads and highways in India has been observed as sub-standard, with 75 percent of the respondents evaluating the condition of roads and highways in India as ‘bad’ and another 23 percent as ‘average’. The government is already in an overdrive mode with regard to the development of roads and highways with a lot of investment being undertaken. The Golden Quadrilateral project and the proposed North South East West Corridor are momentous steps in this direction.

**Power** – Majority of the respondents seemed to be highly dissatisfied with the power situation in India. The unreliable and inadequate power availability in the country has forced a lot of companies to go in for captive power generation plants. Further, the unit cost at which power is available in India is a big impediment in the companies’ quest for competitiveness. This sentiment is echoed by nearly 86 percent of the respondents who have rated the power facilities as highly unsatisfactory.

## FICCI Foreign Direct Investment Survey - 2010

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### Ranking of States

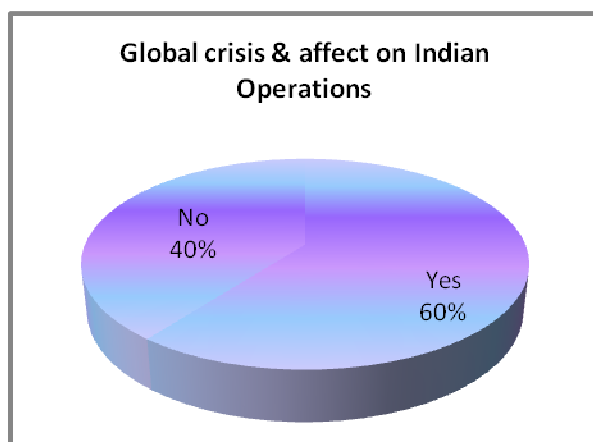
The present survey tried to gauge the perception of the investors at the sub-national level. For this purpose the respondents were asked to rank the top five states in the country in terms of having a positive investment climate. The responses obtained were analysed and a weighted index was calculated based on the individual ranking provided by the survey participants. The results as obtained are summarized in the following table.

Ranking	State
1	Gujarat
2	Karnataka
3	Maharashtra
4	Tamil Nadu
5	Haryana

- Gujarat has been ranked as the most attractive investment destination within India.
- Investors have then placed Karnataka, Maharashtra and Tamil Nadu in the second, third and fourth position in terms of their positive investment climate.
- Haryana, an upcoming hub for the multinational companies has also been placed amongst the top 5 Indian states according to investor's perception.

## FICCI Foreign Direct Investment Survey - 2010

### Affect of global crisis on Indian operations & Future outlook

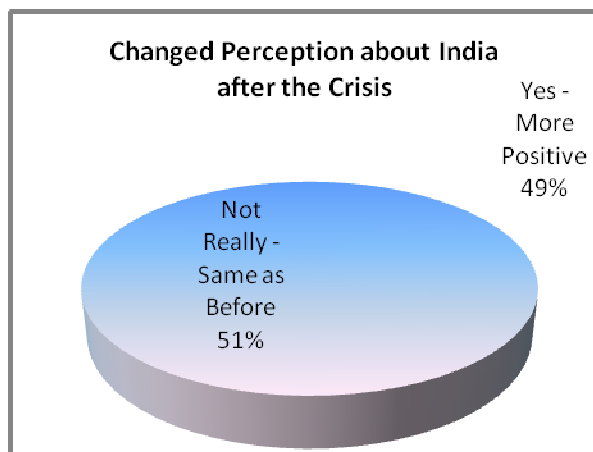


#### Measures taken to beat slowdown in Indian market

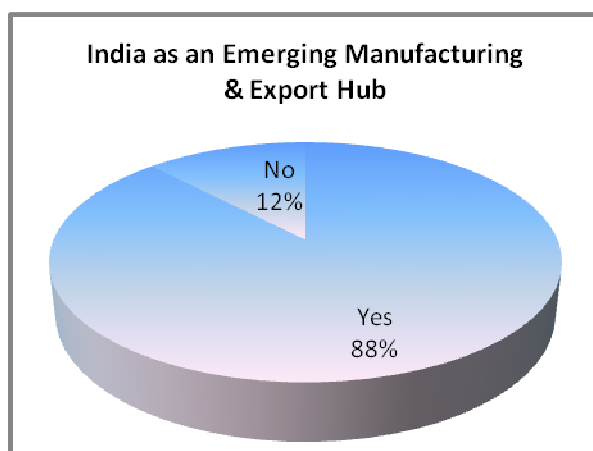
The respondents undertook various steps to beat the slowdown in the Indian market. Some companies undertook immediate measures like cost optimization, freeze on capex and temporary freeze on hiring. There were others who worked towards improving their efficiency and enhancing productivity. Up-gradation of processes and a change in product mix were some of the other measures undertaken by the participating companies.

#### Global crisis and affect on Indian operations –

The economic and financial crisis of 2008 created uncertainty across the world. Although the maximum impact of the crisis was felt in the western countries, even emerging market economies like India saw a few percentage points being shaved off their growth in the ensuing period. FICCI asked the participating firms on whether their India operations were affected due to the slowdown seen in growth in 2009. The responses received show that slowdown of the Indian economy in 2009 had an adverse affect on Indian operations of about 60 percent of the surveyed firms. Most of the investors said that they had to face a decline in demand, profitability and sales. Reduced financing affected capex spends and many companies saw postponement or cancellation of projects. Some of the companies also said that they faced a situation where customers were not paying on time and there was extreme pressure on pricing. A few companies also experienced a big loss on account of adverse forex rate movement, with the USD getting stronger, in the crisis year.

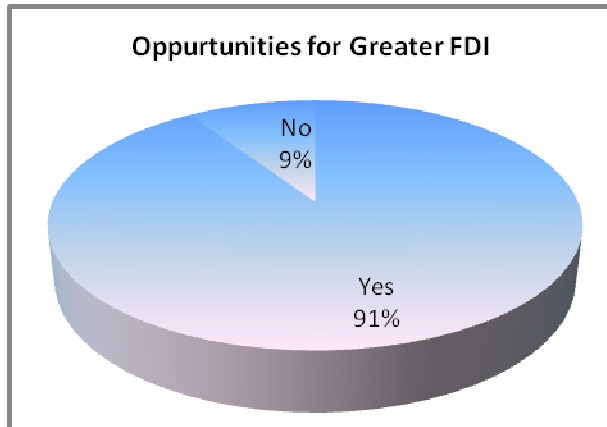


**Changed perception about India after the Crisis** – A mixed response was received with respect to the change in perception about India as an investment destination post crisis. While 49 percent did think more positively about India post the global crisis, a slightly higher proportion - 51 percent - of respondents said that the crisis did not lead to any particular change in their perception and they continue to attach the same level of importance to India as they did in pre-crisis days.

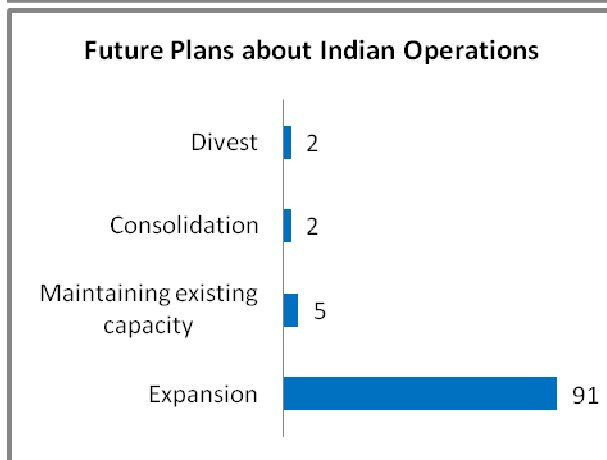


**India as an Emerging Manufacturing Base & Export Hub** – One of the fall outs of the economic crisis is that manufacturing industry is shifting from the west towards low cost production centers in the east. In this context, the surveyed foreign direct investors opined that India does stand to gain significantly and can emerge as a notable manufacturing and export hub. 88 percent of the respondents had faith in India’s attractiveness as an emerging manufacturing and export hub for global companies.

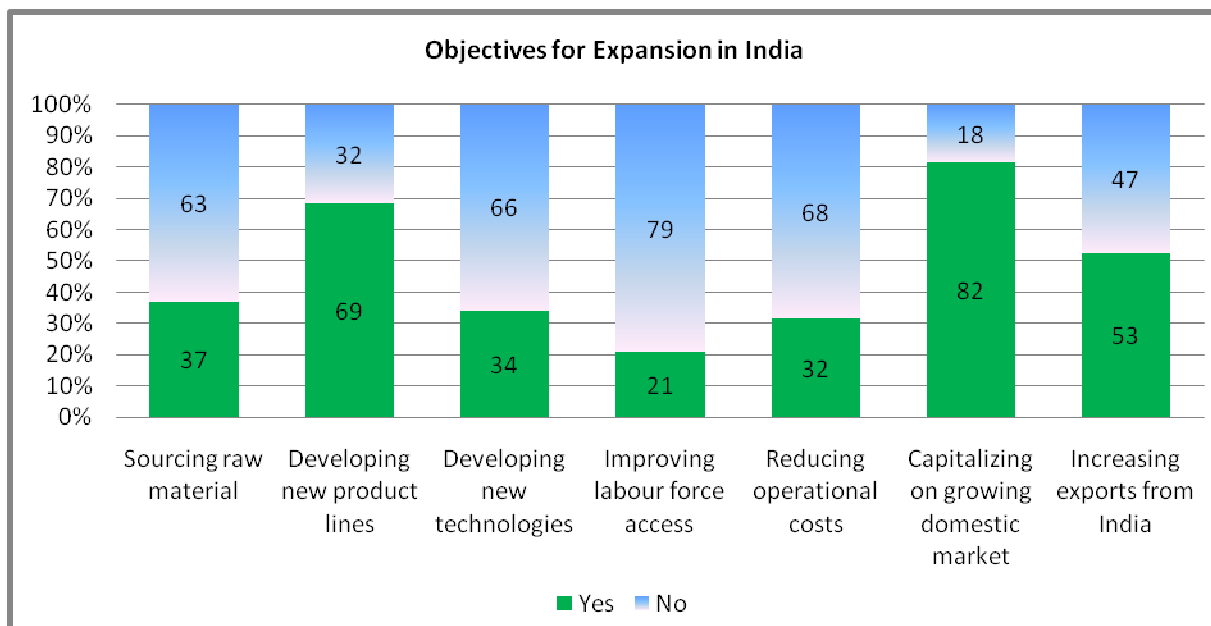
**India Strategy and Impact of Global Crisis** – Majority of the respondents said that they had a clear India specific strategy and that the global crisis did not have any serious impact on it. While different companies have a different view about what they want to achieve through their India strategy, a widely held belief is that India is an important player in the world economy. The global crisis has only made their outlook for India more positive and their priority towards an emerging country like India has become stronger. While there are some who want to capitalize on India’s large market there are others who would like to develop India as a major destination for manufacturing and engineering. There are also companies that would like to increase their focus towards exports from India and make it as a sourcing hub for their worldwide operation. In short what can be said is that the foreign direct investors are enthused by the India story and are looking for further expansion and diversification in the country.



**Opportunities for greater FDI – A** resounding 91 percent of the respondents are of the view that there exist opportunities for greater FDI in their sector in India. This clearly portrays the investors’ firm belief in India’s potential and is a very positive finding. To enable them to capitalize on their identified opportunities it is imperative that the bottlenecks as mentioned earlier be removed.



**Future plans about Indian operations –** The fact that foreign investors are looking at India as an important market for the future is reinforced by the finding that 91 percent of the respondents are considering expansion plans for their operations in India.



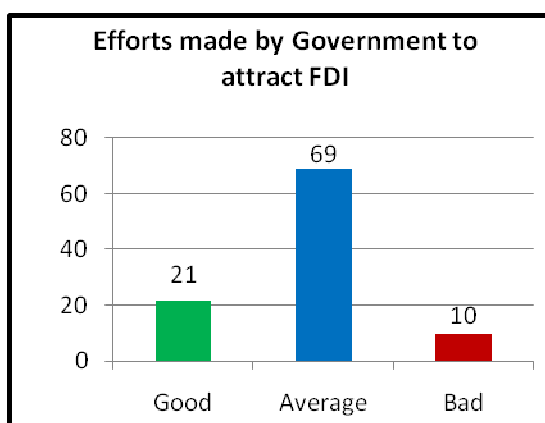
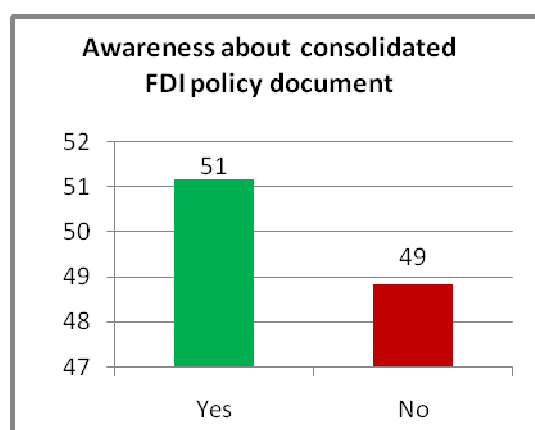
**Objectives for Expansion in India** - The companies that have indicated their plans for expansion in India have pointed out that capitalizing on the growing domestic market is the most important motivating factor for them to expand their Indian operation. This factor was highlighted by as many as 82 percent of the respondents. This was closely followed by other points such as development of new product lines and increasing exports from India with 69 percent and 53 percent of the respondents marking these options as the other important objectives respectively. Besides these, other motivating factors such as sourcing of raw materials, reduction of operational costs as well as development of new technologies got an almost equal approval as crucial motives for expansion of operations in India. Improving access to labor force figured at the lowest position on the list of key objectives for expansion in India of the responding companies.

## FICCI Foreign Direct Investment Survey - 2010

### Government Policy and Efforts

#### Awareness about FDI policy document –

Awareness about the consolidated FDI policy document brought out by Ministry of Commerce and Industry and which brought together all policy guidelines and FDI related notifications issued by RBI, DIPP and the Finance Ministry is still inadequate. 49 percent of the participants pointed out that they were unaware of any such document and thus communication about investor information is still limited in India.



#### Efforts made by Government to attract FDI –

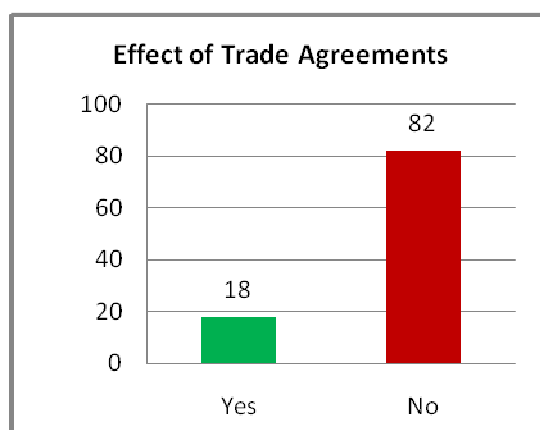
Nearly 70 percent of the participating firms have rated the efforts made by the Government of India to attract FDI into the country as 'average'. Another 20 percent of the firms have rated government effort to position India as an attractive investment destination as 'good', with the remaining 10 percent expressing complete dissatisfaction with the steps taken to market India at the global level.

**Suggestions for enhancing FDI flows** – In the survey, the participating firms were also asked to give their suggestions on measures they would want the government to take to improve the investment environment in India. Several suggestions were received from the respondents and

many of these flow from the responses received to some of the questions presented earlier. These suggestions have been aggregated and presented below –

- ✚ **Rationalization of the tax structure** – Majority of the respondents have demanded simpler and cleaner tax provisions. Several participants also made a request to harmonize tax rates in India and bring them at par with international standards.
- ✚ **Simplification of procedures for flow of funds** – Respondents have also demanded easier provisions for bringing in as well as repatriating funds. Some of the firms have referred to the approval process laid down by RBI to borrow funds from parent companies and demanded rationalization of the same.
- ✚ **Modernization of government systems and reduction in bureaucracy** – Grant of government approvals through the electronic channel as well as proper implementation of single window facility would significantly cut down the time involved in getting various approvals and lead to faster implementation of FDI projects.
- ✚ **Improvement in infrastructure facilities** – Another point that came up frequently in the list of suggestions made by foreign direct investors is infrastructure. While FDI companies have noted the improvement in sectors like telecom; power and roads & highways in particular a cause for serious concern.
- ✚ **Rationalisation of labour laws** – Rationalisation of labour regulations and bringing them in line with the requirements of a modern and fast growing economy has also been suggested by foreign investors.
- ✚ **Liberalization of employment visa rules** – Given the increasing requirement to fly in personnel from their home countries for new and upcoming projects, FDI companies in India have requested that government should look into the existing employment visa rules and make these more liberal.

**Effect of Trade Agreements** – India has entered into FTAs and CEPA with a number of countries. FICCI asked the participating companies if they were impacted by any of these FTAs and if yes then in what manner. The responses received show that a majority 82 percent of the companies have not been impacted by any of the FTAs. Only a small proportion - 18 percent - said that these agreements have had some affect on their operations. Being able to import goods at attractive prices from countries within these frameworks as well as higher export volume to India’s partner countries are the two positives pointed out by the companies.



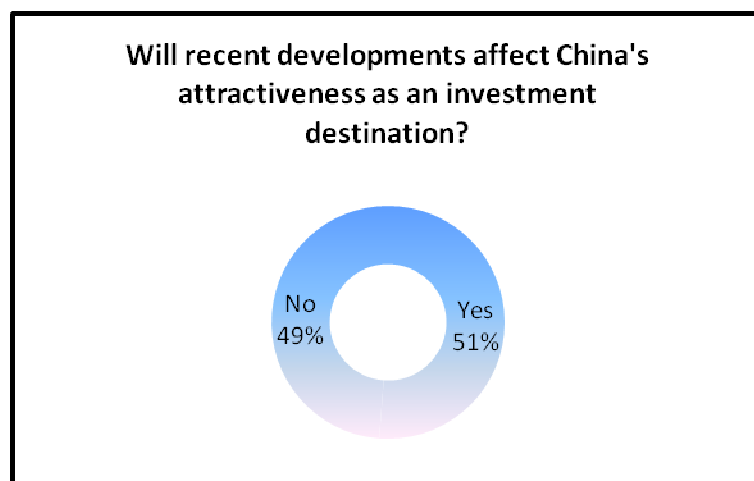
**Views on Minimum Public Float notification** – Majority of the surveyed foreign direct investors felt that the new policy directive of Government of India requiring all listed companies in India

to have a minimum public float of 25 percent is a positive step and would lead to greater public participation. It would result in greater accountability and transparency and thus help in creating a positive business environment along with higher investment potential. However, a smaller group of participating firms also expressed apprehension with regard to this move and said that it could have a negative effect on the growth plans of small and medium sized businesses as it would lead to diversion of their limited resources.

## FICCI Foreign Direct Investment Survey - 2010

### Developments in China and impact on FDI flows in the region

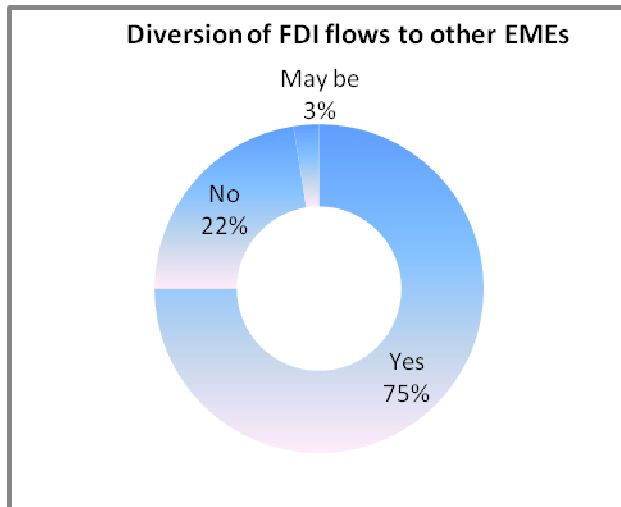
A few months back there were a series of strikes in China affecting production schedules of a few leading multinational majors. Following negotiations between management and workers, wages in the affected units / factories have been raised. In another development, China has indicated that it will be more flexible in managing its exchange rate from now on. Following this, there is an expectation that the Yuan would gradually appreciate over time. There is also evidence to show that China is consciously trying to calibrate its growth strategy and trying to move away from exports and focusing more on domestic demand. Given the importance of these developments, FICCI asked the participating companies on whether they thought these would lessen China's attractiveness as an investment destination.



**Reduction in China's attractiveness as an investment destination** – The feedback received from participating firms shows that there is a division of opinion amongst MNCs on whether recent developments in China would lessen its attractiveness as an investment destination. While 51 percent felt it would reduce China's attractiveness an almost similar percentage -49 percent - felt it will not.

The respondents, who believe that there would be a reduction in the attractiveness of China as an investment destination, suggested that the above developments would lead to an adverse impact on China's core competencies i.e. low cost manufacturing and mass production and thus China would lose its competitive edge. Higher export prices due to Yuan appreciation as well as unstable business environment would also act as barriers and challenge China's attractiveness as an investment destination.

On the other hand respondents who hold the view that these developments would not lead to any reduction in China’s attractiveness cite strong growth, investor friendly and welcoming FDI climate, sheer size of domestic market as well as cooperative government policies as the basis that far exceed and outweigh the short term impact of these recent developments. Considering the huge infrastructure and manufacturing capacities already built in China it will continue to remain competitive and an attractive investment destination, according to this group of respondents.



**Diversion of FDI flows to other EMEs –**

While the survey participants were divided on the question of impact of recent developments in China on the country’s attractiveness as an FDI destination in the long run, there was a clearer verdict that was obtained on whether there could be some diversion of FDI flows to other EMEs including India in the short run. 75 percent of the respondents agreed that the recent spate of developments in China would lead to some diversion of FDI flows away from that country to other EMEs including India.