

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:80
ANSWERED ON:05.12.2003
WORLD INVESTMENT REPORT
RENUKA CHOWDHURY

Will the Minister of FINANCE be pleased to state:

- (a) Whether China attracts seven times more of Foreign Direct Investment (FDI) compared to India according to World Investment Report, 2003;
- (b) if so, the details of FDI received in India and China during 2001 to 2003;
- (c) whether the Government have studied the reasons for such a low level of FDIs in India, compared to China;
- (d) If so, the details in this regard; and
- (e) the steps being taken by the Government to improve FDI in India?

Answer

Finance Minister (Jaswant Singh)

(a) to (e): A statement is placed on the Table of the House.

STATEMENT REFERRED IN REPLY TO LOK SABHA STARRED QUESTION NO.80 ANSWER ON 5TH DECEMBER, 2003 REGARDING WORLD INVESTMENT REPORT BY SHRI JYOTIRADITYA M. SCINDIA AND SHRIMATI RENUKA CHOWDHURY

(a) to (e): Foreign Direct Investment flows to developing countries which stood at US \$ 238 Billion in 2000, fell to US\$ 205 Billion in 2001 and further to US\$ 190 Billion in 2002. FDI flows into India, however, have not gone down in 2002 despite the global trends.

India's Official statistics on FDI inflow for the relevant years did not include reinvested earnings (by foreign companies), inter-company debt transactions and overseas commercial borrowings by foreign direct investors in foreign invested firms, as per standard IMF definitions. This is in contrast to China, which has been reporting FDI following the standard IMF nomenclature.

Owing to the fact that India's Official RBI Statistics on FDI systematically understates inflows compared to the accepted IMF methodology, the International Finance Corporation has estimated that actual FDI inflows into India during 2001 could range between US\$ 5 Billion to US\$ 8 Billion. Furthermore, according to Global Development Finance, 2002, 'round tripping' [that is flows from Hong Kong into China and vice versa] accounts for nearly 50% of China's FDI. Both these factors do not reflect a fair comparison of official FDI figures between India and China.

The International Finance Corporation has done an exercise to adjust FDI inflows in both India and China, for the sake of comparability. According to this exercise, China's FDI to Gross Domestic Product ratio is twice that of India's.

Since mid-2003, reinvested earnings and equity capital of unincorporated bodies are being included in FDI data on an annual basis. The liberal policies of the Government is expected to lead to enhanced FDI flows in the future.