

FOREIGN DIRECT INVESTMENT ENVIRONMENT IN KARNATAKA

Dr. N. K. Sathya Pal Sharma M.Com., Ph.D.,

Department of Commerce, V.V.N. Degree College, V. V. Puram, Bangalore
Guide, dept. of Commerce and Management, Singhania University, Rajasthan, India
Sharma2959@yahoo.co.in

Prof. Krishna B. S.

Research Scholar, dept. of Commerce and Management, Singhania University, Rajasthan, India
kris.sadu@gmail.com and krishna.b@acecl.com

Abstract

Foreign Direct Investment in India has created opportunity to expose India to the world, this era begun in 1991 due to New Economic Policy introduced during P V Narasimha Rao's prime ministership. This also led into Liberalization, Globalization and Privatization (LPG). Karnataka "Knowledge Hub of Asia" also creating great opportunity for the FDI Inflow and Outflow in many fields, which is also developing Karnataka's economy to a greater extent. This research paper deals with the FDI environment in Karnataka. (i.e., Karnataka economy, contribution to economy, sector wise, transparent industrial policies which attracts host countries to invest in Karnataka.)

Key words: GSDP, FDI, LPG, SEZ, SKDC, SIR, VADA, FICCI, KUM.

Introduction

During last twenty to twenty-five years, there has been a tremendous growth in global Foreign Direct Investment (FDI). In 1980 the total stock of FDI equaled only 6.6 percent of world Gross Domestic Product (GDP), while in 2011 the share had increased close to 17 percent (UNCTAD 2011). This development has taken place simultaneously with the substantial growth in international trade. The growth in international flows of goods and capital implies that geographically distant parts of the global economy are becoming increasingly interconnected as economic activity is extended across boundaries. FDI is an important factor in the globalisation process as it intensifies the interaction between states, regions and firms. Growing international flows of

portfolio and direct investment, international trade, information and migration are all parts of this process. The large increase in the volume of FDI during the past two decades provides a strong incentive for research on this phenomenon.

Objective of the Study

- 1) To study the Karnataka Economy
- 2) Contribution to economy by sector
- 3) Impact of FDI on Karnataka Economy
- 4) Favoring points to invest in Karnataka
- 5) Industrial policies

Hypothesis of the study

The main objective of this paper is to study the Karnataka economy and its favorable environment for FDI, which leads to the development of the Karnataka's economy.

H 1: FDI leads to development of Karnataka's economy

H 2: Karnataka is the better place for FDI

Karnataka Economy

Karnataka has a total area of 1, 91,976 sq km, 5.83% of the total geographical area of India. It is the 8th largest state in India. It is the 9th largest state in India comprises of 30 districts. The GSDP (Gross State Domestic Product) is constant growth of 8.9% in the FY 2010-11. Karnataka is the 17th largest GDP (Gross Domestic Product) states in India. GSDP is expected to grow @ 6.4% in 2011-12 which is slightly less than India's GDP estimate of 6.9% per capita GSDP during 2010-11 was Rs. 47,310 at constant prices. Karnataka's per capita income in Indian rupee terms of 6th place.

The contribution of primary, secondary and tertiary sector of Karnataka GSDP is 55.35% the composition of India's GDP is 14.4% (Primary), 27.9% (Secondary) and 57.7% (tertiary sector). Karnataka is the largest hub of manufacturing sector industries in India. HAL, NAL, BHEL, BEML, HMT which are based in Bangalore. Many of India's premier science and technology research centers, such as Indian Space Research Organisation, CPRI, BEL AND CFTRI. Mangalore refinery and petrochemicals ltd. is an oil refinery located in Mangalore.

Contribution to economy sector wise

- Agriculture and Allied sector grew up to 12.9% in 2010-11. In 2012 it is expected to grow at a rate of -3.9% having affected by a severe draught. Karnataka has been credited by the planning commission for presenting separate agriculture budget.
- Karnataka is the largest produces of coarse, cereals, coffee and raw silk among the states. Income generated from horticulture is over 40% of total agriculture income. In floriculture Karnataka occupies 2nd position in India in terms of production.

- Bangalore is the home of the largest bio-cluster in India with total revenue of over Rs. 14 billion and having 158 and 320 companies working on bio-technology in India.
- Karnataka has a head count of over 6800 scientists involved in bio-tech research
- Karnataka has the largest number of Information technology companies located in the city which contributed 33% of India IT exports Rs.1, 44,214.

Impact of FDI on Karnataka Economy

The advantages of foreign direct investment in Karnataka are, it has helped to generate employment opportunities for people in the state. Further the advantages of Foreign Direct Investment in Karnataka are, it has led to the growth in exports from the state to foreign countries.

The effectiveness and efficiency depends upon the investors perception, if investment with the purpose of long term then it contributes positively towards economy, on the other hand if it is for short term for the purpose of making profit then it may be less significant.

Favoring points to invest in Karnataka

Factors attracting FDI in Karnataka:

- The state government is investor friendly, it provides the facility of the single window clearance to ensure fast track approvals for FDI
- The infrastructure available is of world class standard.
- The state provides excellent logistic support and connectivity to the investors.
- The state provides to the investors one of the biggest and fastest expanding markets in the country.
- Highly skilled man power is abundantly available in Karnataka.

- Karnataka ranks top 5 industrially developed states in India.
- IT, Cement, Food Processing industries, Automobiles, Pharmaceuticals, electrical and communication, Apparel are achieving to the greater extent.
- International companies that have invested in Karnataka:
HP, Compaq, Accenture, GE, Toyota, Coca-cola, Warner Lambert, Italicemnt, Van heusen etc.

Favoring infrastructure in Karnataka

Infrastructure	
Airport	5 airports with 3 domestic and 2 international
Ports	11
National highways	4,396 km : 14 NHS
State highways	20,528 km : 114 SHS
Railways	3,250 km
Coastlines	321 km
Metro	42.3 km (33.48 km of elevated and 8.82 km of underground)

Product clusters	26 MSME Product clusters
Industry cluster	132 industrial estates
SEZ	8 growth centers.
SIIRs	<ul style="list-style-type: none"> • IT/ITes, Chemical and Petrochemicals textile • Pharmaceutical, Aerospace, FTWZ, Engineering, Bio-tech, Food processing.
SKDC	Agri-investment region (4)
al	<ul style="list-style-type: none"> • Vijayanagar Area development Authority (VADA) • Information Technology Investment Region (ITIR)
i	

Facilitating fast track approvals for key investments.

Project Approval Committee	Investment range
1. State High Level Clearance (SHLCC)	More than Rs. 50 crores
2. State Level Single Window Clearance (SLSWCC)	More than Rs.3 crores and up to Rs. 50 crores

FDI STATISTICS IN KARNATAKA

(RBI's Regional Office (RO) - Bangalore)

(As on 31.12.2008)

- **Cumulative FDI inflows and approvals during 1991-2008 (up to December)**
 - FDI equity inflow is US\$ 100.4 billion, including amount of acquisition for existing shares (up to 1999), RBIs- NRI Schemes, stocks swapped and advance pending for issue of shares.
 - FDI approvals during the last seventeen years are over US \$ 88.6 billion.
- **Share of RBI's Regional Office (RO) Bangalore (State covered Karnataka)**

In FDI inflows:-

 - Karnataka ranks 3rd
 - Percentage share with total FDI inflows is 7.00%
 - Total FDI approved for Delhi US \$ 6.2 billion

In FDI approvals:-

- Karnataka ranks 6th
- Percentage share with total FDI approvals is 7.34%
- Total FDI approved for Delhi is US \$ 6.2 billion

Top five countries invested in Karnataka:

FDI inflows (from January 2000 to December 2008):

- Mauritius (43%)
- U.S.A (12%)
- Netherlands (7%)
- Germany (7%)
- Singapore (5%)

FDI approvals (from August 1991 to December 2008)

- U.S.A (15%)
- Belgium (15%)
- U.K (11%)
- Japan (8%)
- Mauritius (8%)

Top sectors attracted FDI inflows & approvals :

FDI inflows (form January 2000 to December 2008)

- Computer software & hardware (18%)
- Housing & Real Estate (12%)
- Service Sector (financial & Non financial) (11%)
- Construction Activities (6%)
- Telecommunication (5%)

FDI approvals (from August 1991 to December 2008):

- Fuels (power & oil refinery) (26%)
- Service Sector (financial and Non financial) (23%)
- Transportation industry (11%)
- Electrical Equipment (including computer software & electronics) (9%)
- Fermentation Industries (7%)

Technical collaborations:

- Since 1991, total technical collaborations are:

8035 Nos. of these, Karnataka has been granted 523 technical collaborations

- Share of Karnataka with total is 6.51%
- Top five sectors attracting technology transfer in Karnataka are:
 - i. Electrical Equipment (including computer software & electronics) (133 nos)
 - ii. Industrial machinery (39 nos)
 - iii. Misc. Mechanical & Engineering Industry (38 nos)
 - iv. Transportation Industry (31 nos)
 - v. Chemicals (other fertilizers) (29 nos)

Top inflows received from January 2000 to December 2008 into Karnataka through Indian companies are:

- Manipal University Learning P.ltd
- Shyamraju & Company (India) P.ltd
- Metro Cash & Carry (I) P.ltd
- Mysore Cements Ltd
- Cisco Systems Capital (I) P.ltd
- Devas Multimedia P.ltd
- Givaudan (Indian) P.ltd
- Mantra Developers P.ltd
- BPL Mobile Cellular Ltd
- United Breweries Ltd

A. Cumulative FDI inflows:

(From August 1991 to December 2008)

Cumulative FDI inflows of FDI during 1991-2008 (up to December) is Rs. 4,230.3

FDI inflows in respect of State specific are not maintained by RBI, Central Office, Bangalore. RBI maintains the FDI inflows data as per RBIs Regional Offices (RO) where the FDI inflow is reported to the Authorised Dealers of RBI. Many RBI

Regional Offices covers more than one state. The RBI Bangalore Regional Office (RO) covers the state of Karnataka. The amount of RBI inflows projects specific in respect of all the States is centrally maintained by RBI for the period from January 2000 onwards only.

However, the FDI inflows reported to RBIs Bangalore Regional Offices (RO) is Rs. 238.9 (US \$ 5.5) billion which is 7.00% for the period from January 2000 to December 2008 on the basis of the cumulative inflows received through SIA/FIPB route, acquisition of existing shares & RBIs automatic route.

A.1. SHARE OF TOP FIVE COUNTRIES ATTRACTING FDI INFLOWS AT RBI'S REGIONAL OFFICE (RO) OF BANGALORE (INCLUDING STATE OF KARNATAKA) (from January 2000 to December 2008):

Ranks	Country	Amount of FDI inflows (In Rs.)	Amount of FDI inflows (In US \$)	% with FDI inflows for Karnataka
1.	Mauritius	103,823.12	2,404.72	43.46
2.	U.S.A	29,118.47	662.77	12.19
3.	Netherlands	16,744.14	377.76	7.01
4.	Germany	15,843.19	365.33	6.63
5.	Singapore	12,096.12	271.31	5.06
	Total →	177,625.04	4,081.89	74.35

Note: (i) Amount includes the inflows received through FIPB/SIA route, acquisition of existing shares & RBI's automatic route only
(ii) The amount of FDI inflows in respect of the country/sector/state specific data is not provided by RBI, Mumbai prior to January 2000.

A.2. SHARE OF TOP FIVE SECTORS IN FDI INFLOWS REPORTED AT RBI'S REGIONAL OFFICE (RO) OF BANGALORE (INCLUDING STATE OF KARNATAKA) (from January 2000 to December 2008):

Ranks	Country	Amount of FDI inflows (In Rs.)	Amount of FDI inflows (In US \$)	% with FDI inflows for Karnataka
1.	Computer Software & Hardware	42,270.63	953.94	17.69
2.	Housing & Real Estate	28,031.17	665.43	11.73
3.	Services Sector (financial & non financial)	26,806.06	636.25	11.22
4.	Construction Activities	14,379.63	346.84	6.02
5.	Telecommunication	12,017.63	272.08	5.03
	Total →	1,23,505.48	2,874.54	51.69

Note: (i) Amount includes the inflows received through FIPB/SIA route, acquisition of existing shares & RBI's automatic route only
(ii) The amount of FDI inflows in respect of the country/sector/state data is not provided by RBI, Mumbai prior to January 2000.

B. CUMULATIVE FDI APPROVALS

(From August 1991 to December 2008)

From August 1991 to December 2008, Government (including RBI's automatic route) has approved 28,152 foreign collaboration (technical & financial) proposals with a corresponding foreign direct investment (FDI) of Rs. 3,458.4 (US \$ 88.6) billion.

Out of this, the total number of approvals for Karnataka have been of the order of 2,773 (9.85% off the total approvals) with an equity participation of Rs. 253.9 (US \$ 6.2) billion 7.34% of the total investment. Karnataka ranks 6th in the list of States in terms of cumulative FDI approved from August 1991 to December 2008.

State	No. of approvals Total	No. of approvals Technical	No. of approvals Financial	Amount of FDI approved	% with total for all states
Karnataka	2,773	523	2,250	Rs. 2,53,902.03 million (US \$ 6,249.59 million)	7.34%

B.1 SHARE OF TOP FIVE COUNTRIES IN FDI APPROVALS FOR KARNATAKA

(From August 1991 to December 2008):

Rank	Country	No. of FDI approvals	Amt of FDI approved in Rs.	Amt of FDI approved in Rs.	% with total FDI for Karnataka
1.	U.S.A	798	38,111.69	962.48	15.01
2.	Belgium	22	37,717.68	952.79	14.86
3.	U.K	150	27,161.91	627.14	10.70
4.	Japan	85	20,546.81	501.73	8.09
5.	Mauritius	199	20,401.46	495.81	8.04
Total →		1254	1,43,939.55	3,539.95	56.70

B.2 SHARE OF TOP FIVE SECTORS ATTRACTING FDI APPROVALS FOR KARNATAKA (From August 1991 to December 2008):

Ranks	Sector	No. of approvals	FDI in Rs.	FDI in US \$	% with FDI approval for Karnataka
1.	Fuels	54	66,729.19	1,747.41	26.28
2.	Services sector	108	58,027.64	1,303.17	22.85
3.	Transport	103	27,970.50	692.80	11.02
4.	Industry	1018	23,462.86	561.34	9.24
5.	Electrical equipments Fermentation industries	17	16,876.74	367.98	6.65
Total →		1,300	1,93,066.93	4,672.70	76.04

C 1 SHARE OF TOP FIVE SECTORS ATTRACTING TECHNOLOGY TRANSFER FOR KARNATAKA (From August 1991 to December 2008)

Ranks	Sector	No. of technical collaboration approved	% with technical cases for Karnataka
1.	Electrical	113	25.43
2.	Equipments	39	7.46
3.	Industrial	38	7.27
4.	Machinery	31	5.93
5.	Misc. Mechanical Engineering Transporting Industry Chemicals	29	5.54

D.1 DETAILS OF TOP FDI INFLOWS RECEIVED RBI'S REGIONAL OFFICE (RO) OF BANGALORE (INCLUDING STATE OF KARNATAKA)

(From January 2000 to December 2008):

(Amount in Million)

Sl. No.	Indian Company	Foreign collaborator /country	Sector/item of Manufacture/Activity	Amount of FDI inflows Rs./US \$
6.	Devas Multimedia Pvt Ltd	Deutsche Telekom Asia P.Ltd	Computer Software Industry	Rs. 3,232.5 US \$ 66.4
7.	Givaudan (India) P.Ltd	Givaudan (India) P.Ltd, Switzerland.	Chemicals	Rs. 3,176.8 US \$ 78.6
8.	Mantri Developers P.Ltd	GSS LII Rose Investment Inc.	Housing & Real Estate	Rs. 3,000 US \$ 66.7
9.	BPL Mobile Cellular Ltd	Mauritius Mauritius	Telecommunications	Rs. 2,533.6 US \$ 55.1
10.	United Breweries Ltd	Scottish & Newcastle India Ltd. UK	Fermentation Industries	Rs. 2,469.0 US \$ 56.7
	(I) P. Ltd			US \$ 88.2

CONCLUSION:

In the above study it is clearly understood that Karnataka is the best investing place for foreign investors. With the infrastructure, technical support, sectoral contribution everything clearly reveal the fact that Karnataka is the investors hub.

With the FDI in Karnataka the GDP of the Karnataka's economy is likely to grow up to 9% in the FY 2012, since the silicon valley of the world Bangalore is also located in Karnataka (the capital city) which is another attraction to the investors.

But the drawback, which may affect the FDI inflow to the state, is instability in the political environment, which is one of the major points that may affect the minds of the investors.

The FDI will also affect the environment of Karnataka, like the micro/our own investors may not be able to face the huge competition given by the investors from abroad. FDI will also result in high cost of living and standard of living which is not adoptable for middle and lower middle class people.

Finally Karnataka is very rich in natural resources, human resources and infrastructure so it is a great place for the investors to get the proper return for the capital employed. On the other hand the total population in Karnataka is around 6.11 crores and unemployment ratio is around 4.7% (28, 71,700, as per 2011 census) this problem can be majorly solved.

Sl. No.	Indian Company	Foreign collaborator/country	Sector/item of Manufacture /Activity	Amount of FDI inflows Rs./US \$
1.	Manipal Universities Learning P. Ltd	Memg International Ltd, Mauritius	Education	Rs. 7,690.8 US \$ 158.1
2.	Shyamraju & Company (India) P. Ltd	TPG-AXON (Mauritius) I ltd, Mauritius.	Housing & Real Estate	Rs. 4,600.0 US \$ 109.1
3.	Metro Cash & Carry (I) P.ltd	Metro Cash & Carry international GMBH, Germany.	Trading (Wholesale Cash & Carry)	Rs. 3,811.6 US \$ 89.0
4.	Mysore Cement Ltd	Cement rum I.B.V, Netherlands.	Cement and Gypsum products	Rs. 3,591.0 US \$ 79.0
5.	Cisco System Capital	CSI Mauritius Inc. Mauritius.	Financial	Rs. 3,529.6

References:

1. *Advantage Karnataka – Government of Karnataka-
www.advantagekarnataka.co.in*
2. *Global Investors Meet 2012 – www.gim.com.*
3. *Hand Book on FDI*
4. *Karnataka economy article published by - Confederation of Indian Industry.*
5. *Business maps of India – statistics on Karnataka economy.*