"INFLOWS OF FDI IN INDIA SINCE 1991: A CASE STUDY OF PHARMACEUTICAL INDUSTRY"

ABSTRACT
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BY GULSHAN AKHTAR

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Dr. (Mrs.) Zeba Sheereen

DEPARTMENT OF ECONOMICS
ALIGARH MUSLIM UNIVERSITY
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FDI is one of the most interesting topics in the area of international business and trade. FDI assumes a lot of importance because it can influence many micro and macro economic variables of a host country. It has its impact on employment, exports, imports, prices, BOPs economic growth, competition, production investment etc. FDI represent one of the most important instrument through which a national economy can encourage production, know-how imports, increase in employment, infrastructure development, poverty reduction etc. the benefits achieved through the increase in FDIs have created strong competition in the global market of free capital, all with the aim to attract as many and as diverse FDIs as possible. The general trend in the global FDI market is the erasure of geographic borders between developing countries and developed ones as in the past years, developing countries have not only represented a growing FDI market, but have also been aimed at attracting capital intensive investments as well as R&D investments.

FDI is now widely perceived as an important resource for expediting the industrial development of developing countries especially India because of the fact that it flows as a bundle of capital, technology, skills and sometimes even market access. Therefore, most of the developing countries offer a welcoming attitude to MNCs that are usually associated with FDI. India's case is a typical in this context because after following a somewhat restrictive policy towards international investment, India liberalized her FDI policy regime considerably since 1991. And this liberalization has been accompanied by changes in the sectoral composition, entry modes and sources.

Although, conflicting view have been expressed by proponents and opponents of FDI with regard to attracting FDI. But, as a matter of fact, FDI is considered the boom of
the globalization. In the present era of LPG, no individual country can conceive the idea of all-around development without the judicious mix of foreign capital particularly FDI.

The present study would mainly focus on the post-liberalization period inflows of FDI in Pharmaceutical industry. The study aims to access the nature of the FDI inflows in IPI since the economic liberalization of 1991 and attempts to explore its effects on certain aspects of development.

The data used for this study is extensively based on the secondary. Mostly numerical data for analysis has been extracted from various World Investment Report, World Trade Organization, Economic Survey, RBI Bulletin & RBI Annual Reports, SIA Newsletters, CMIE etc. Besides above sources upto date data was manually collected from FDI Data cell DIPP, Ministry of Commerce & Industry, New Delhi and BDMA, Hyderabad.

The whole thesis is organizes in six systematic and continuous chapters. The chapter one is fully devoted to the introductory background and theoretical framework of the study. Chapter second discusses the review of literature, research methodology and procedural presentation of conducting the study. More importantly the researcher has focused on the following objectives and hypotheses of the study:

To examine the significance and assess the various aspects pertaining to performance of the FDI in India viz-a-viz sector-wise, country-wise, state-wise and year-wise during pre and post-reform period. (ii) To analyze the growth and development trends of IPI and its contribution to Indian economy. (iii) To study on focus on the inflow of FDI in IPI since economic reform. (iv) To highlight the dynamic potential and future
prospects of FDI inflows in the IPI. (v) To analyze the future dynamic potential of the Pharmaceutical sector will be utilized with further FDI inflow in India in the era of new WTO regime and (vi) Finally to come out with the findings and conclusion of the study and to offer some pragmatic suggestions for increasing FDI inflows in India to benefit the whole economy in general and pharmaceutical industry in particular.

Chapter third discusses the different policy phases of FDI vis-à-vis economic liberalization in India and then different patterns of FDI in global and in India are presented. The researcher has divided these policy phases into four to make a systematic and presentable study i.e. cautious and selective attitude (1948-67); restrictive attitude (1968-79); semi liberalization phase (1980-1990); and Liberalization phase (1991 onwards). After this different pattern, trends and compositions of FDI is highlighted taking global, year-wise, country-wise, sector-wise, state-wise view of the FDI in pre and post liberalization period. It starts with different dimensions of FDI inflows to India which includes size and growth, sources and sectoral distribution of FDI inflows. And lastly, explain the reasons for low FDI in India are also presented in this chapter.

Chapter four firstly examines the detail of the performance appraisal of IPI viz-a-viz production, exports, imports, investment, employment etc. It also presents pharmaceutical regulatory structure and government initiatives to promote this sector. SWOT analysis and the position of Indian Pharmaceutical sector on the global market discussed too.

In chapter five the researcher has made statistical analysis for the impact of FDI on Indian pharmaceutical sector on the variables such as total production, investment, Profit, export and employment. It has been noticed that there has been ample
opportunity for the concentration of FDI in pharmaceutical sector particularly export and profitability of the sector. It revealed that 97% of pharma investment variation can be explained by the regression equation. Amongst the independent variables it is only export which is statistically significant to pharma investment. However d-test indicated positive auto correlation amongst the variables. Similarly 98% of variation in pharma total production can be attributed by the regression equation. Among the independent variables only export is statistically significant while 'd' test indicated positive auto correlation amongst the variables. 99% of variation in pharma export can be explained by regression equation and total production and investment are statistically significant with positive 'd' test correlation amongst the variables. As far as FDIPI and pharma profitability are concerned, it indicated that 91% of variation in profit can be attributed by regression equation. It is noticeable that only FDIPI is only statistically significant and 'd' test indicated positive correlation amongst the variables. Besides 97% of variation in pharma employment can be explained by the regression equation. It is only total production that is statistically significant but 'd' test shows negative correlation. It is mainly due to pharma sector being highly technology based sector. However employment opportunities are created in allied services due to pharma sector.

In the last sixth chapter the researcher has made every effort to present the conclusion of the present study of the trends, patterns and composition of FDI in the Indian economy in general and FDI in pharmaceutical industry in particular has proposed various recommendations and suggestions at the end of this chapter.

Undoubtedly, our economy has benefited enormously from the economic reforms process initiated in 1991. The GDP has been steadily rising and the 8% plus
(annually) growth rate that is the present norm speaks volumes of how India has been progressing. Besides, inflation has been moderate throughout (except in some recent years, due to sky rocketing international prices). The foreign exchange reserves present a very healthy pictures and foreign debt is being paid ahead of schedule. India has become a production base and an export hub for diverse goods from agriculture products to pharmaceutical products to high end services. Indian firms are now a part of global production chain. Large international corporations have established R&D centers in India trade has registered a steady rise and all these factors resulted into greater integration of Indian economy with the world economy. The capital market also has been buoyant and thus India is considered as a favorite destination by foreign investors for foreign investment particularly FDI.

The Indian government in the post liberalization period i.e.1991 onwards has slowing but steadily tried to facilitate the inflow of FDI into different sector of the economy. FDI is sought because it is expected not only to augment investible resources but more importantly, to improve technological standards efficiency and competitiveness of domestic industry. It is also associated with bringing in of 'relatively latest technology into the industry since markets for technology are imperfect. However, this study on the impact of FDI on productivity growth suggests that the exact nature of the impact of FDI depends on the firm-industry host economy specific factors. These include the technological levels prevailing in the industry, the learning capabilities of the firms and the absorptive capacity of the host country, which determines the rate of technological diffusion of the technology. Thus, FDI in economic development does not mean automatic spillover effects. It depends on the development of domestic firms and their efforts to invest in learning by watching and
doing. The level of FDI also plays an important role, because whenever it relatively low an insignificant result will be the outcomes and vice-versa.

FDI in India assumed critical importance in the context of the economic reforms initiate in 1991. Raising the inflows of FDI substantially was taken as one of the key objectives of industrial and trade reforms. The reforms were accompanied by a rapid increase in inflow of FDI into the Indian economy. India has made significant inroads in opening its economy since it joined the WTO in 1995. There are, however, still remnants of its inward looking development strategy. Indeed, India’s trade volume as a share of GDP is low in contrast of other major Asian countries and its import tariffs remain comparably high. Moreover, capital account restrictions in particular those applying to FDI are still there, although recent policy directives are laying the ground for greater FDI. However, the prospects for greater world integration are promising, since there is a political consensus on the need to further liberalize trade and capital account restrictions. Moreover, the size and potential for growth of the domestic market is one of the more important factors responsible for the strong interest of freeing investors in India.

From this study it is observed that in the new era of liberalization when the emphasis is on attracting a large amount of foreign investment, FDI inflows marked a significant rise as compared to the immediately preceding phase. The data reveals that while service sectors attracted maximum investment consumer goods, and infrastructure sectors also had an important place in the FDI inflows. The key factors behind the large FDI inflow appear to be the de-reservation of public sector reserved areas, de-lisecing allowing larger share of foreign investors and the general boom in global investment flows.
Size and sector-wise distribution of the FDI inflows suggest that relatively small number of FDI inflows falling under power, fuel and infrastructure sectors. However, in view of the large investments and importance of the infrastructure sector, pricing would remain a crucial factor.

It is also observed that since 1991, the foreign investment particularly FDI has tremendously increased. The pattern of FDI in terms of country-wise, sector-wise and state-wise has undergone a significant change since economic liberalization in India and has shown an increasing trend which has benefited the whole economy in its growth and development.

Pharmaceutical industry is classified as one of the most high-tech and capital-intensive industries. It is considered as the ‘life line’ industry because its products play a crucial role in remedying the suffering of diseased persons. It is also significant contributor to the strength of any economy by creating jobs for millions and contributing to the export earnings. The distinctive feature of this industry is such that the goods produced by this sector can neither be substituted nor replaced. The pharmaceutical industry is one of the basic industries of the country. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously.

The IPI is currently divided into three-tier structure. Large MNCs operates as originator drug companies, generic companies along with large Indian generic companies and medium and small scale industries. Pharmaceutical industry contributed nearly 12% of India’s manufacturing sector GDP and 2% of the country’s GDP during 2008-09. Besides this drugs & pharmaceuticals have been consistently 5th
largest exported principal commodity of the country for the last several years. In terms of trade balance it is only Indian sector after apparels that have consistently given positive trade balance and it growing around 1.5 to 1.6 times of country GDP growth rate. Furthermore it is a net earner of foreign exchange and this kept increasing throughout the years since 1991. Its turnover also witnessed a tremendous growth over the past few years i.e. from US$2857.14 million in 1990-91 to US$20787.40 million in 2009-10 i.e. raised more than seven-folds. Presently, 70% of requirement of the country in bulk drugs and almost all the demands for formulations are met by the domestic industry. Pharmaceutical industry employs 29 million people (5 million direct and 24 million indirect).

At the global arena IPI ranks very high in place third in world in terms of technology quality and range of medicines manufactured. The country now ranks third worldwide by volume of production and 14th by value of production. Globally it ranks 4th in terms of generic production and 3rd largest bulk drugs producers in the world. It ranks 17th in terms of export value of bulk drugs & formulations. India account for over one-third of DMFs in USA and 30% of all approved ANDAs in the US. Even in patent challenges India ranks 2nd only next to USA with a share of 21% of patent challenges.

The pharmaceutical industry is severely technological and capital intensive and India is one of very few developing countries that have comparative advantages in the industry. However despite the impressive growth of this sector and low costs production there are several concerns which needs to be addressed. Likely accessibility and affordability of medicines by the common man, instituting standards of quality, strengthening the fragmented regulatory system, sustaining growth of generic etc.
The presence of foreign firms boosts the competitive environment in the pharmaceutical sector and spillover effects are generated through the elimination of insufficient firms and faster adoption of technology. It will be further increased in near future due to TRIPS implementation. Besides the MNCs invest a lot in training and positive externalities in the form of human capital development seem to be generated. Further, the MNCs are highly aware of quality standards for products and production processes which seem to have positive impact to the domestic industry to improve their products quality, and could be argued continually be generated in the future due to new patent law and enhanced investment climate. Currently, domestic firms have invested more in R&D than pre-reform period and competition in terms of R&D can stimulate further competition and growth in the industry.

FDI in the IPI is mainly market-seeking. India's advantage for MNCs in the pharmaceutical industry is first of all the large domestic market, with a more than one billion population. Wide disease pattern, relatively cheap manpower and skilled labour are other factors that attract foreign investors. From the analysis and regards FDI in pharmaceutical industry it has been observed that the share of pharmaceutical industry's FDI in total FDI inflows was 2.05% on an average during the period under consideration.

In order to promote FDI and maximize further spillover effects, polices should be investor friendly, with a clear developing strategy. The policies in India should encourage domestic firms to invest more in R&D and technology up-gradation and human resources by providing suitable fiscal and financial incentives.