*This is part of our Forex Focus Series**

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Foreign Direct Investments:

Are they ticking Time Bombs?

A Case Study

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Foreign Direct Investments (FDIs) - Are they ticking time bombs: A Case Study

India has opened-up/liberalized its economy in the year 1991. It had no choice, of course (popular narrative may be different, though). Subsequently foreign direct investments (FDIs), big and small, poured in. It has been 34 years since then and we wanted to take a look at how this development has worked out for India. We wanted to see 'how much India gained and at what cost'. To study this we chose one South East Asian automobile company which invested a good deal of money (read US Dollars) almost immediately after the so-called liberalization. We do not want to name the company in this study/discussion paper for the following reasons:

1. As a matter of policy we never target/talk-about any individual person, company or organisation. We always focus on policy issues and macroeconomic environmental dynamics.
2. We picked up this company rather randomly (Its jumbo sized IPO sometime back might have attracted our attention).
3. Further we do not have complete information about this company. There are gaps in the publicly available information. This company was incorporated in the mid 1990s. But we could not find the information for the first seven years or so. We made a few adjustments/modifications to the available data so as to work around this issue. While this may have affected the accuracy of the report, it does not, according to us, affect the conclusions we have arrived at.

We call this company SEAM Enterprises in this paper (South East-Asian Automobile Major).

Okay. Let us start.

SEAM Enterprises entered into India in mid 1990s and established a manufacturing unit in South India to manufacture passenger vehicles. That was the time when Indian roads were still ruled by the Jurassic era Amby & Fiat and the Maruti/Japanese Suzuki, the specially chosen one, was enjoying the near monopoly. At this juncture SEAM Enterprises entered the scene, moved deftly, played the game very intelligently and benefited immensely. Perfect. Nothing wrong with that. When we delved into its performance since then, we discovered that this FDI turned out to be extremely costly for India. We want to make it clear that we are not accusing SEAM Enterprises of any wrong doing. Let us look at some significant findings:

- SEAM Enterprises generated 34% IRR till FY 2024-25 (Please see Annexure).
- SEAM Enterprises brought into India, as per our estimates, about USD 220 Million in the mid 1990s and remitted close to USD 9.50 Billion to its parent company till FY 2025.
- Further, after remitting about USD 9.50 Billion, the company still holds shares worth about USD 20 Billion (based on its Share price as on 30th Sept, 2025). This USD 20 Billion is in a way debt on India's Sovereign Books. Because if SEAM Enterprises decides to leave India and finds a domestic buyer, then it is the Government of India's responsibility to arrange the necessary foreign exchange. We call this '**FDI Debt**' in this study/discussion paper.
- Collectively the above has made India poorer in general and drained significant amounts of its precious foreign exchange earnings. Yes, the company may have provided employment to a few thousands and may have contributed to State/Central exchequers and brought world class technology to India. We are not considering them here since this paper is focussed on foreign exchange related matters only. At the end of the day if we are losing on the external/forex front so heavily none of them come to our rescue when a crisis erupts. India knows it better than any other country.

We wonder whether India needs such costly FDIs, particularly in a low priority, if not least priority, sector.

CONCLUSION

If this is how FDIs are 'helping India' then our opinion is we are losing big time. The nation is losing heavily. No, we are not against FDI. We know, we have seen, the consequences of protectionism. This episode clearly shows us that our Rulers are not good at managing money. No wonder India remains poor in spite of having all necessary resources. Further we see that we do not have a 'priority hierarchy' to start with. We mean we do not know what is more important and what is less important, relatively speaking. Manufacturing passenger vehicles can not be a high priority industry. In all such cases the Government should design the scheme that would benefit the country more while keeping it attractive enough for foreign investors. The Government should put riders like the Company should dilute its stake to the extent of 40/50 percent through IPO within five/ten years after commencing commercial production. Similarly the Government can also put conditions like remittances can-not/should-not exceed 10/15 percent of capital employed each year. They are, after all, here to take advantage of the huge and big consumption story. They are not here out of love for India. They are not here to serve India (never mind what their slick curated advertisements depict). These are not after thoughts. This is how any professional 'Finance Manager' would go about while evaluating a proposal. Bringing in as much predictability as possible into an unpredictable scenario is one of the basic traits of a good FM. How would he/she plan for funds (Forex in this case) otherwise.

We already said that these FDI are sovereign debts in a certain way. We are not very sure whether anyone is keeping track of such FDI Debt. Nations, we suppose, which do not keep an eye on such commitments end up in 'Forex Trap'. Forex Traps operate like Debt Traps. In the absence of such tracking a nation may become desperate to attract forex inflows to meet its forex obligations when large FDIs (and other investors/lenders) want to leave, for whatever the reason. Nations suffer immensely in such a case. No amount of foreign exchange reserves will be able to bail out the country fully (Incidentally these foreign exchange reserves do not come cheap. How much foreign exchange reserves a nation needs is not an easy question to answer. We may come up with another discussion paper on this issue in future).

Postscript:

1. While preparing this study/discussion paper we have come across some peculiar/extraordinary/uncomfortable issues. We did not go into them because they fall outside the scope of this paper, strictly speaking, and also because of our limited resources. Having said that, we want to report one such issue because it is more a policy matter than a company specific issue. The Company reported large amounts of receipts from the State Government as 'incentives under MOU'. The Company, it seems, entered into at least four MOUs with the State Government. We do not know what these MOUs contain. Our attempts to get copies of those MOUs were unsuccessful.
2. We observe that India has entered into FTA with the country where SEAM Enterprises' parent is domiciled which clearly states that any restriction on remittances are not acceptable.
3. Interestingly when SEAM Enterprises along with a couple of other companies repatriated IPO proceeds to their respective parent companies abroad India's 'FDI-for-the-year' plummeted to zero. We believe RBI had a tough time in defending the INR. Any lessons to learn?

4. According to some recent news reports, Indian subsidiaries of many MNCs command greater market cap than their '**Global Parent's**' market cap. Should we feel proud about it or should we sit up and analyse it?

**Forex Focus Series is an initiative under which Proletarian Power examines closely different kinds of Foreign Exchange transactions that take place on a regular basis. Under this initiative we plan to study different categories of foreign exchange flows, both inflows and outflows, and their impact on the economy in general and on the Proletariat/Working-class/Common-man in particular.*

ANNEXURE

All figure in Millions of Rupees unless otherwise stated

Finacial Year	Capital	Dividend	Royalty	Technical KnHo	Technical Asst	Total Remittanc	INR/USD	USD (million)
Column 1	# (Inflows)	# Column 2	# Column 3	# Column 4	# Column 5	# C+D+E+F	as at 31st Mar.	# G*H
1999-00	-8125.41	0.00	0.00	0.00	0	-8125.41	0.02291	-186.153
2000-01	0.00	0.00	0.00	0.00	0	0.00		0.000
2001-02	0.00	0.00	0.00	0.00	0	0.00		0.000
2002-03	0.00	1218.81	1265.51	0.00	0	2484.32	0.020677	51.368
2003-04	0.00	1218.81	2048.14	0.00	0	3266.95	0.023068	75.362
2004-05	0.00	1218.81	2640.72	175.75	0	4035.28	0.02289	92.368
2005-06	0.00	0.00	3083.02	0.00	0	3083.02	0.022432	69.158
2006-07	0.00	0.00	3697.74	83.73	0	3781.46	0.022976	86.883
2007-08	0.00	0.00	3904.53	79.12	0	3983.65	0.024989	99.547
2008-09	0.00	1218.81	4315.53	98.77	1.05	5634.16	0.019627	110.582
2009-10	0.00	1218.81	4647.30	0.00	46.21	5912.32	0.022245	131.520
2010-11	0.00	1218.81	4709.35	0.00	68.36	5996.52	0.022428	134.490
2011-12	0.00	4875.25	4848.90	0.00	389.39	10113.54	0.019629	198.519
2012-13	0.00	6094.06	4007.14	306.82	109.72	10517.74	0.018407	193.600
2013-14	0.00	6094.06	4400.59	342.90	492.06	11329.61	0.016697	189.170
2014-15	0.00	4306.47	6135.18	1234.10	643.44	12319.19	0.015993	197.021
2015-16	0.00	4306.47	8929.54	795.00	355.07	14386.08	0.015094	217.143
2016-17	0.00	0.00	9817.94	849.51	162.74	10830.19	0.015406	166.850
2017-18	0.00	0.00	9603.40	980.37	441.32	11025.09	0.015344	169.169
2018-19	0.00	23230.55	11140.10	906.23	568.97	35845.85	0.014456	518.188
2019-20	0.00	0.00	11586.52	3200.63	706.9	15494.05	0.013216	204.769
2020-21	0.00	13594.00	10225.86	1315.35	201.38	25336.59	0.013663	346.174
2021-22	0.00	14935.00	11008.13	0.00	77.35	26020.48	0.013194	343.314
2022-23	0.00	46534.23	14386.98	893.71	48.71	61863.63	0.012164	752.509
2023-24	0.00	107824.20	15584.42	549.56	669.96	124628.14	0.011994	1494.790
2024-25	1592571.00	14077.27	18776.33	0.00	188.25	1625612.85	0.011705	19027.798
					IRR	0.34		
				Total Remittances (USD Million)		9491.432		

1. Dividends are taken from the Directors Report
2. Royalty taken from Profit and Loss Account
3. Technical Knowhow and Technical assistantance are taken from Related Party Payments
4. Remittances are converted into US Dollars at the prevailing INR/USD rate as on 31st March of respective year.
5. IRR is calculated on the basis of inward (Capital) and outward (Dividend, Royalty Technical knowhow etc.,) remittances.
6. Further for the year 2024-25 Market Cap at which IPO was made is added to remittances of the year for calculating IRR.
7. Total Remittances include IPO proceeds.