Trade and Current Account Impact of FDI: A Study of Select FDI Manufacturing Firms in India

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Swati Verma*

[***Abstract***: *In view of the significantly positive contribution of FDI on the capital account of the Balance of Payments (BoP) of India since 1991, the current account impact of FDI is largely assumed to be positive or is given much less policy attention. However, through high foreign exchange outflows via imports and other expenses involving profit repatriation and a range of service payments, FDI invested firms can substantially contribute to current account deficit and trade deficit in any developing economy. In the Indian case, the substantive trade liberalization measures introduced under reform years and the intensification of transfer mispricing practices might considerably influence this adverse pattern of foreign exchange use, even as the high domestic market orientation of FDI may ensure limited earnings through exports. The paper explores some recent evidence on the foreign exchange use behaviour of FDI invested manufacturing firms in India. The large sample surveys of FDI firms by RBI indicate a predominantly negative trade account and current account net impact of these firms on an aggregate basis since 1991. A closer appraisal of foreign exchange use pattern of 469 listed and unlisted manufacturing FDI firms over two recent years indicates that a majority of these firms are associated with net foreign exchange losses on current and trade account of BoP. Such an adverse pattern is noted for FDI firms in almost each manufacturing sub-sector. A tendency towards substantially rising net foreign exchange losses is observed for a consistent set of select listed manufacturing FDI firms over a longer time period in the post-reform phase. The results emphasize the critical need for a closer supervision of various foreign transactions of FDI firms operating in India, especially unlisted foreign subsidiaries, and for an appropriate policy initiative to check any adverse pattern of resource losses via the current account of the BoP.*

Keywords: Foreign direct Investment, Foreign affiliate, Multinational firm, Manufacturing sector, Foreign Exchange use, Trade, Balance of payments

JEL Classifications: F6; F14; F21; F23; F31; L6.

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1. Background of Study

FDI is commonly perceived as a favourable factor for developing countries owing to its role in covering the technology, capital and entrepreneurial capability gap present in such economies. In the case of India, the role of FDI assumed much importance since 1991, when foreign investment inflows of both direct and portfolio variety were deregulated through a series of policy reforms, the policy initiative being mainly adopted in response to the impending Balance of Payments (BoP) crisis and the shortage of foreign exchange faced on the external accounts front.

Subsequently, large increases in foreign investment inflows have been observed mainly via the FDI route especially over the recent two decades. Out of the total FDI inflows of US$ 4,99,834 Million received over the 1991-2017 period, 96.9 per cent was received over the 2000-2017 period (DIPP). Over the same period, there has been a proliferation of foreign invested firms in India. The recent Census on Foreign Liabilities and Assets (FLA) on Indian Direct investment Companies published by RBI (2019) indicates that 17,849 companies reported inward foreign investment in 2017-18.

Markedly, FDI is preferred by various developing economies as an important alternative source of long term finance in comparison to the debt creating private sourced flows that mostly lead to negative net transfers for servicing the debt. However, some key apprehensions remain on the vulnerability of the BoP in the recipient countries of FDI to net outflows on account of remittances and interest payments as well as increased trade flows given that affiliates are customarily a part of larger global corporate networks. Hence, the direct effect of FDI on the host nations BoP via the current account operations needs careful assessment.

In the Indian case, where the capital account of BOP has been in surplus owing to large foreign investment inflows, the current account of India's BOP has been in deficit for most part of the post-reform period, as indicated in Chart 1. The rise in current account deficit has been largely due to a widening trade deficit on account of rising oil and non-oil imports[1,2,3]. Chart 2 shows a continuously negative non-oil trade balance especially after 2005-06. Very recently, the CAD has widened to disconcerting levels and the focus has largely been on FDI to finance the CAD especially in recent years[4]. High levels of volatility

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[1] India's foreign trade rose over 18 times since the launch of economic liberalization programme in 1991 while the trade deficit widened by more than 22 times. (*Trade deficit jumps to $136 bn in 2013-14*, December 25, 2014, Businessline, The Hindu.)

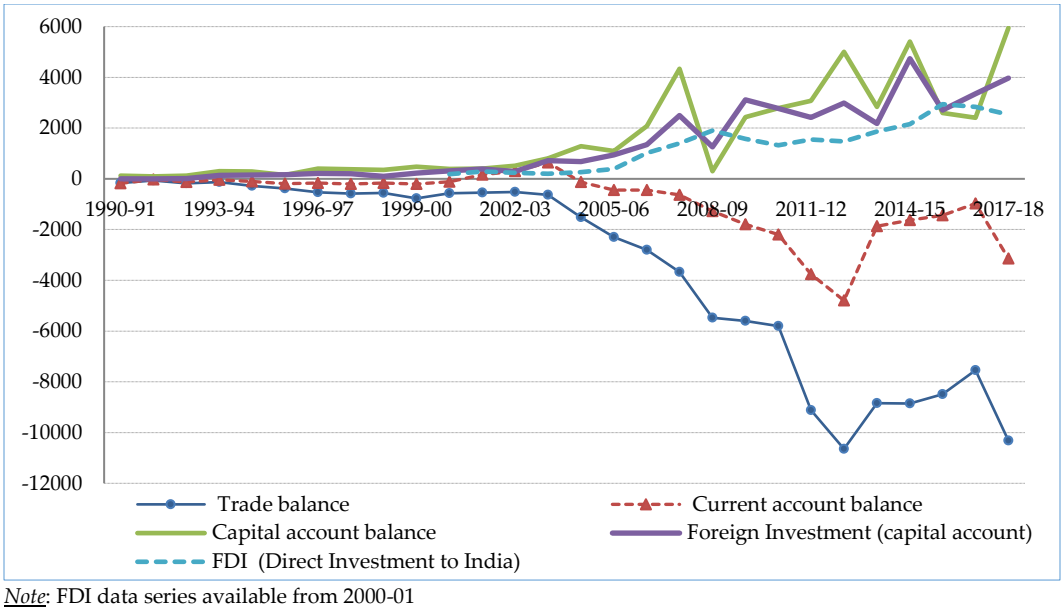
[2] CAD in India has been driven by merchandise trade deficit since liberalization (See Krishnaswamy & Kanagasabapathy , 2013}.

[3] "CAD trebled during the year (2017-18) from its level a year ago, essentially due to the sharply higher merchandise trade deficit" (*Current account deficit expected to be largely financed by FDI flows*; August 30, 2018, Financial Express)

[4] IMF has recommended that India shall focus on FDI to finance current account deficit, instead of global financial markets. (See "*IMF wants India to focus on FDI*"; July 2018, Business Standard).

in portfolio (FII) inflows emphasize obvious challenges in financing the trade deficit in future unless a steady and rising inflow of FDI is maintained on the capital account.

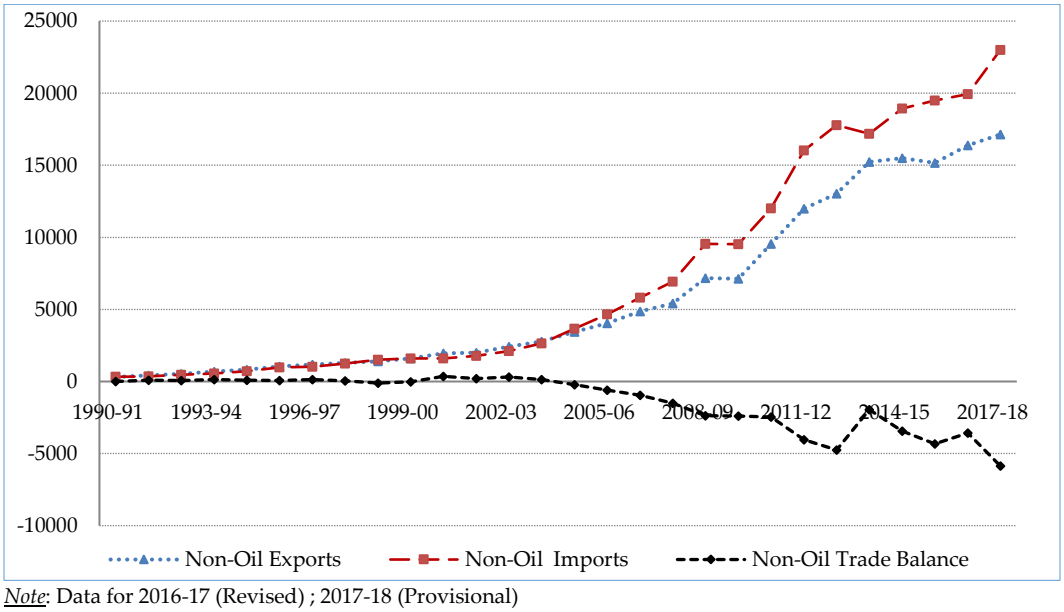
Chart 1: Key Components of India's Balance of payments (in Rs. Billion)



Note: FDI data series available from 2000-01

Source: Handbook of Statistics on Indian Economy, RBI, www.rbi.org.in

Chart 2: India's Foreign Trade, Non-Oil (in Rs. Billion)



Note: Data for 2016-17 (Revised) ; 2017-18 (Provisional)

Source: Handbook of Statistics on Indian Economy, RBI, www.rbi.org.in; Original Source: Directorate General of Commercial Intelligence and Statistics.

In view of the serious resource constraints faced by the economy on the current account of BOP front in recent times, the direct implication of FDI on the current account calls for critical evaluation. It is worth noting that the relaxation of controls on FDI inflows under reforms have been accompanied by substantial trade liberalization measures like dismantling of import controls in a phased manner by removing quantitative restrictions and through drastic reduction in import tariffs (especially industrial tariffs)[5]. Additionally, the caps on profit repatriation through dividend distribution[6] and royalty payments[7] have been removed through various policy changes over the same period. In this liberalized scenario, a higher propensity of foreign firms to spend foreign exchange on imported inputs, royalties and technical fees, and on a higher repatriation of profits can be expected. Also, due to a high domestic market orientation of FDI inflows in India[8], the export earnings may not be very high, and a negative net impact on the current account is likely.

Considering the crucial role of FDI inflows on the capital account in financing the current account deficit of India in present times, any adverse contribution of FDI towards the deterioration of current account or trade account may exacerbate the existing challenge of foreign exchange shortage faced on the BOP front.

With an aim to explore the direct implications of FDI on the movement of foreign exchange flows through the current account and trade account of BOP of India in post-reform years, the study examines the pattern of foreign exchange use for FDI linked firms by analyzing the secondary data reported by official sources like RBI and firm level data from annual financial statements reported by listed and unlisted firms.

The manufacturing sector is the core focus of the study as it has been at the centre of much of the reforms in industry or trade and has attracted a fair share of foreign direct investment in India in post-reform period. Based on the official data reported by the Department of Industrial Policy & Promotion (DIPP), a higher concentration of FDI in sectors involving production of non-tradable goods and services is observed over the April, 2000 to March, 2017 period. Nonetheless, the manufacturing sector has been an important recipient of the FDI inflows over these years even though its share has been

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[5] See Bhat et al (2007) and Goldar (2005) for a discussion on various important trade liberalization measures introduced.

[6] The condition of "Dividend Balancing" in all foreign investment approvals was withdrawn in 1992 except for 22 specified consumer goods industries, for which the condition was also withdrawn in 2000.

[7] Recently, the caps on royalty payments ($2 million as lumpsum) were completely removed with a retrospective effect from December 2009.

[8] WIR, UNCTAD, 2003.

changing[9,10]. Recently, the manufacturing sector accounted for 47.8 per cent of the FDI equity inflows reported by DIPP for the period October 2012 to September 2014, but its share was rather lower at 30.3 per cent over the October 2014 to March 2017 period (Rao and Dhar, 2018). Also, the FLA census by the RBI indicate that the manufacturing sector companies[11] accounted for nearly 50 per cent or more of the total FDI equity value (at market prices) in each of the recent six years i.e. 2012-13 to 2017-18 covered by the FLA surveys.

The study also attempts to cover a vast number of unlisted manufacturing FDI firms, since a large share of foreign firms in India remain unlisted at present[12]. They frequently escape the stringent financial reporting requirements like publicly traded listed companies and are largely understudied. Hence, their foreign transactions need a much closer appraisal[13].

2. Review of Literature

Various studies have investigated the issue whether trade imbalances are linked to FDI inflows in developing economies particularly, especially since current account balances are increasingly shaped by FDI and trade in so far as these economies are increasingly being integrated into the global production networks of MNCs. It is a common apprehension that if FDI creates trade deficits, it may contribute to a further deterioration of the current account balance (Mencinger, 2008). High repatriation of profits and dividends may adversely affect the current account balance in direct ways. These adverse aspects can be particularly concerning for developing economies relying on FDI to finance their current account deficit[14].

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[9] Manufacturing sector received about a third of the total inflows over January 2000 to March 2015, and four sectors namely pharmaceuticals, automobiles, chemicals and metallurgical industries were the main recipients apart from other sectors like electronics, medical and surgical appliances and machine tools. (See Rao & Dhar (2015), pp. 6-7).

[10] Some key manufacturing sectors like Computer software & hardware, Automobile, Drugs & pharmaceuticals, Chemicals and Metallurgical industries are among the top sectors that have received FDI inflows over April 2000 to March 2017 period (Fact Sheet on FDI, DIPP).

[11] It includes foreign subsidiaries, associates and other companies having inward foreign investment.

[12] The recent Census on Foreign Liabilities and Assets of Indian Direct Investment Companies, 2017-18 published by RBI (2019) indicates that at least 17,648 foreign direct companies with only inward foreign investment are unlisted, that represent about 99 per cent of total inward FDI companies. {https://www.rbi.org.in.}

[13] The OECD's Draft Handbook on Transfer Pricing Risk assessment has indicated that insufficient or low compliance effort by companies regarding their undertaken transactions is an important indicator of risk factor in transfer pricing and such cases need careful further scrutiny by tax administrators. (See OECD, 2013, pp-12).

[14] Some studies like Kumar (2007) had concluded that FDI inflows appeared risky for developing economies due to capital flight in times of extreme financial crisis. Also, in the case of Turkey, new FDI inflows dropped sharply since financial crisis (Beattie, 2014).

In light of the perspective of the 'Dependency theory', it has been held that foreign firms bring in limited net resources in the host economy, as they usually take a large surplus out of the country through different routes of foreign exchange expenditure (trade, dividend, royalty etc.). The outflows of income damage the balance of payments of LDCs and exacerbate an existing problem of shortage of foreign exchange. Some studies like Hufbauer and Adler (1968), Dunning (1974), Blomstrom et al (1988), Whichard (1980), Lall (1978), Cypher and Dietz (1997) and Stallings (1990) discuss the issue theoretically or empirically from this viewpoint.

Evaluating the deteriorating effect of FDI on the Goods & Services Account (GSA) of BOP, Smits (1988) observed that FDI (flow variable) transactions lead to a rise in the imports of goods and services primarily owing to a preferred tendency towards intra-firm trade and resource dependence on parent firms. The high intra-firm imports by MNE affiliates has been found by many studies such as Cohen (1973), Helleiner (1981), Casson and associates (1986) and Jansen (1995). It has been argued that MNEs tend to resort to intra-firm trade since it gives the subsidiary immediate access to all the markets that can be reached via other subsidiaries and via the parent too. Also, it provides the firm with a mechanism for tax-avoidance through transfer pricing. Analyzing foreign firms in the US, Hipple (1990) found an adverse effect on trade balance due to faster rise in intra-firm imports and minimally increased intra-firm exports.

Certain empirical studies focusing on developing economies like Riedel (1975, Taiwan), Vaitsos' (1976, Peru), Natke and Newfarmer (1985, Brazil), Natke (1981, Brazil) and Chudnovsky & Lo´pez (2004, MERCOSUR nations) have found evidence of higher import intensity of foreign firms in comparison to local firms. Some evidence of a high import co-efficient in high technology sectors has been noted by Chudnovsky and Lopez (2004). Also, the tendency towards intra-firm imports in high technology sectors has been found in studies like Buckley and Casson (1976), Buckley and Pearce (1979), Siddharthan and Kumar (1990) and Bernard et al. (2010).

On the Income Account, Smits (1988) further noted that the tendency for profits and dividend payments is likely to be high since the financial component of FDI is risk-bearing capital on which investors seek higher returns. Royalties and technical fees payments also tend to be significant as the profitability of FDI for the parent company finds its cause in the internalization of firm-specific advantages. Notably high levels of profit repatriation by foreign firms have been found in studies like Jansen (1995)[15] for Thailand and Lattore, Bajo-Rubio and Gomez-Plana (2009) for Czech Republic[16]. Also, huge income and profit repatriations due to FDI led to current account deficits in Brazil and Argentina over 1996-

[15] Jansen (1995) noted that the investment income payments arising from FDI have complicated the effect of FDI on the current account.

[16] Also, Ramirez (2002) found that remittances of profits and dividends by Latin America and the Caribbean to developed countries tripled over 1990 to 1998.

2000, as found by Lehman (2002)[17,18,19]. The remittances for royalties and technical assistance were found to be significantly high for foreign firms in Brazil by Willmore (1986).

Some recent literature has shown that 'market-seeking' strategies predominate in the recent FDI boom which may particularly limit the export tendency of foreign firms. Mataloni and Nader (1996) observed that local sales accounted for higher than two-third of total sales by United States MNE affiliates in 1994 in select host country markets namely United Kingdom, Canada, Germany, and Japan. Similarly, foreign direct investment (FDI) was found to be largely market seeking in Indian manufacturing by UNCTAD (2003) and in MERCOSUR countries by Chudnovsky and Lopez (2004). Few other studies like Khan and Kim (1999) for Pakistan and Hossein (2008) for Bangladesh have highlighted that FDI inflow is positively related to both exports and imports[20].

A preferred tendency to import or repatriate profits coupled with limited exports by foreign firms may result in a net negative impact on BOP of the host economy. Such adverse effect of FDI has been observed by a number of studies focusing on developing economies[21]. In a study of 159 foreign firms in select LDCs, Lall (1978) found that nearly 91 per cent of firms had predominantly negative impact on BOP in these countries. Markets seeking foreign firms were noted to operate with strong trade deficits in four countries in MERCOSUR in 1990s by Chudnovsky and Lopez (2004), especially in high-tech activities. Some studies like Jansen (1995) and Lattore, Bajo-Rubio and Gomez-Plana (2009) have highlighted the significantly high and rising levels of current account deficit in Thailand and Czech Republic due to high imports and profit repatriation by foreign firms that made additional borrowing necessary in occasional cases. Similar effect of FDI flows on current account deficit was concluded in a study of six economies by Woodward (2003)[22]. Some studies like Hossain (2007) have shown that even though the initial impact of FDI on BOP

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[17] In Lehman's view, trade openness and host country risks were found to increase the profitability of affiliates where earning repatriations were not determined through constant dividend payout ratio. {Lehman, 2002)

[18] Woodward (2003) had argued that subsequent repatriation of capital from host country of FDI was similar to repayment of loans.

[19] A study by Samuel (2013) found that net investment income was a large contributor to South African current account deficit. Also, Hossain (2008) found that outward remittances (dividend, profit repatriation, investment liquidation) constituted 65 per cent of total FDI and debt inflow in Bangladesh over 1998-2007.

[20] The study by Khan and Kim (1999) found that FDI led to increase in imports and exports of Pakistan with a lag of one year, where a ten per cent rise in FDI was followed by 1.8 per cent increase in imports and 0.6 per cent increase in exports. Also, AbuAl-Foul and Soliman (2008) found a positive link between FDI and manufacturing exports of MENA (Middle East and North American) countries, as MNCs were more efficient in imports than local firms.

[21] Some studies like Calvo et al. (1996) indicate that a surge in international capital flows have coincided with widening current account deficits in many developing countries.

[22] Mencinger (2008) had argued that higher inflow of FDI was associated with higher current account deficit as FDI drove local competitors out of business and increased imports. Also, the efficiency acquired by firms from multinationals decreased.

is positive, the medium term effect could be negative owing to high intermediate imports of goods and services and profit repatriation.

However, the effect of FDI on the balance of payments of the Indian economy has been studied to a relatively limited extent especially over the post-reform phase. Some important evidence on the net foreign exchange losses by foreign firms was found by Chandra (1993) for 1960s and 1970s, Athreya and Kapoor (2001) over 1975-85 and Krishna and Mitra (1982) in 1977 and 1978. In a comprehensive study of 133 foreign subsidiaries and 189 foreign controlled companies, Goyal (1979) found substantial net foreign exchange losses by these firms in 1975-76. Similar pattern was noted for 289 listed foreign companies over 1995-96 to 2000-01 by Goyal et al. (2002). In a majority of key manufacturing sectors, foreign affiliated companies were observed to affect the current account negatively in a study by Ranganathan and Murthy (2008). Similar conclusion was reached by Chaudhuri (2009) who found much sharper fall in net export intensity (1.68 to -4.52%) and net foreign exchange earning intensity (-0.62 to -7.39%) of manufacturing foreign firms compared to domestic firms between 1992-93 and 2005-06.

Few other studies, like Ray and Venaik (2001) noted a higher propensity to import raw materials, capital goods and finished goods by foreign affiliates in few high technology sectors compared to local firms in the year 1997-98. The foreign exchange expenses on royalty and dividend fees by these firms were found to be higher as well. A nearly double increase in the import intensity of manufacturing foreign companies from 7.34 per cent in 1992-93 to 13.51 per cent in 2005-06 was noted by Chaudhuri (2009). However, he found the export intensity of the foreign companies to have remained constant at around 9 per cent over the same period, as it remained reasonably lower than the import intensity in the end year of study. Also, limited contribution to manufacturing exports of India over 1991-2005 period by foreign affiliates was concluded in a study by Pradhan, Das and Paul (2006).

An important study by Rao and Dhar (2015) based on the Annual FLA Census by RBI indicates that the foreign subsidiaries in most of the individual manufacturing sub-sectors report negative trade balance in the year 2013-14. They find that remittances including repatriations, dividends and payments for technology accounted for nearly half of the equity inflows reported in the BoP accounts of India over the 2009-10 to 2014-15 period. Considering these two aspects together, they infer that the foreign subsidiaries may be contributing to the vulnerability of external payments position of the economy.

As evident from various research studies focusing on resource constrained developing economies that have received reasonable volumes of foreign investment inflows over past few decades, the impact of FDI on the trade and current account of BOP can be negative and needs a critical evaluation. Especially in the case of India where substantive trade liberalization measures have been introduced under the reforms which could have intensified the spending of foreign exchange through various channels by FDI linked firms, a closer appraisal of the foreign exchange earnings via exports and overall foreign

exchange use pattern is crucial. The present paper reviews the direct current account impact of foreign exchange transactions of FDI linked firms in India for most part of the reforms phase and has a specific focus on manufacturing sector firms.

3. Research Design and Methodology

For examining the foreign exchange use behaviour on the current and trade account of BOP for FDI linked manufacturing firms, the study analyzes their various income and expenditure transactions in foreign exchange. The Current account of BOP of India comprises transactions on four heads namely Merchandise trade (export, import), Services, Transfers (official, private) and Income[23] (See Appendix 1). The various sub-heads under the three main item heads that are covered in this study are the Export and Import[24] of goods on the Trade account, the income and receipts on the Services transaction heads like travel, transportation, insurance and various miscellaneous services comprising royalty, license fees, financial/management services, other business services etc., and the income and receipts on the Income transaction heads like interest, dividend etc[25].

The pattern of foreign exchange use by FDI companies over the post-reform years is studied by reviewing information from secondary data sources as well as by evaluating the foreign transactions at firm level. The secondary data sources comprising large sample surveys of finances of FDI companies by RBI covering information on aggregate trade and current account transactions of FDI firms and the Annual Census on Foreign Liabilities and Assets (FLA) of Indian Direct investment companies published by RBI covering data on trade account transactions of manufacturing foreign invested firms are reviewed.

For a closer firm-level evaluation, the foreign exchange transaction behaviour of manufacturing FDI affiliated firms is studied from the audited annual financial statements of listed and unlisted manufacturing FDI firms. The coverage of a large sample of unlisted firms is an important focus of this study. The recent FLA Census by RBI (2017-18)[26] indicates that out of 17,849 foreign direct investment companies with only inward foreign investment in India, at least 17,648 companies (99%) are unlisted. However, as the information on their financial transactions is not available easily in public domain, they remain largely understudied. Also, the identification of various FDI affiliated manufacturing firms (especially unlisted) is difficult as there is no particular database on operations or financials of FDI firms.

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[23] For detailed description, see External Sector Statistics, RBI, www.rbi.org.in.

[24] The import head covers import of raw materials, components, finished goods, trading goods and capital goods.

[25] The cross-border flows under the fourth head namely **Transfers** comprising both official and private transactions have been excluded from this study.

[26] "Census on Foreign Liabilities and Assets of Indian Direct Investment Companies 2017-18", RBI Bulletin January 28, 2019, https://www.rbi.org.in.

In order to identify various foreign affiliated firms (listed & unlisted) operating in manufacturing sector of India for this study, three main sources of information have been used, namely the Investment map, MCA (Ministry of Corporate Affairs) website and Prowess-IQ of CMIE. In the website of Investment Map[27], information on companies having inward FDI option in India was available for recent year. From this database, names of about 1800 foreign affiliates operating in India in ten broad categories of manufacturing sector were identified[28]. This list covered both listed and unlisted foreign affiliates. For obtaining more background information on the selected foreign affiliates, their names were individually searched on the MCA website[29] to obtain information on their Corporate Identification Number (CIN), Paid-up capital (PUC) and share of foreign directors out of total directors[30] in recent years. From the CIN number, information on the Listing Status, Industry code, State code, Incorporation year, Ownership and Registration number of the company was obtained[31]. After removal of duplicates[32] and exclusion of very small sized firms by applying a filter of selecting firms with PUC of at least Rs. 10 crore in the latest year, only 609 firms were selected. For an initial level (indicative) identification of manufacturing sector foreign affiliates, the 5 digit ROC[33] industry code mentioned in the CIN number was examined. All manufacturing industries are covered under 23 two-digit ROC codes (numbered between 15 and 37) in the ROC code list. By further applying this ROC code filter, 440 manufacturing companies were selected (50 listed, 390 unlisted).

A similar search was made for identifying manufacturing foreign affiliates from the Prowess-IQ database of CMIE[34]. This is an electronic database that provides the data on the audited annual financial statements of companies listed on the BSE/NSE index in India. Companies that were classified under the 'manufacturing'[35] sub-head in Prowess and had share of foreign corporate bodies and institutions being equal to or more than 10 per cent in the total shareholding in the latest year were identified. By further applying the

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[27] https://www.investmentmap.org; Data is provided by International Trade Centre

[28] The 10 manufacturing sub-sectors selected were: Chemical and chemical products, Electrical equipments, Food Processing, Machinery and equipments, Precision instruments, Automobile, Pharmaceuticals, Rubber and Plastic, Textile Clothing & leather and Wood & wood products.

[29] http://www.mca.gov.in/mcafoportal/viewCompanyMasterData.do

[30] For identifying a foreign affiliate, some preliminary indicative information was obtained by considering the name of the directors of the company and their DIN /PAN from the MCA website, as higher presence of foreign directors may indicate a high possibility of the firm being a foreign affiliate.

[31] For instance, If CIN is U24130TN2005PLC152467, then U stands for Unlisted firm, 24130 is industry code based on ROC code list, TN is state code (in this case Tamil Nadu), 2005 is incorporation year, PLC is ownership and 152467 is unique registration number.

[32] A large number of duplicates (about 629 cos.) arose because the same company got classified under multiple sectors owing to their diversified product profiles. Some companies also changed names that were identified separately. For removing them, relevant information was taken from the Tofler website (https://www.tofler.in/) and MCA website.

[33] The ROC code is the industry code provided by the Registrar of Companies, MCA.

[34] https://prowessiq.cmie.com/

[35] Companies are classified into 'pre-defined' sectors by Prowess by mapping each company to the product which has contributed maximum share in the total revenue in a given year.

PUC filter of Rs.10 crore and the ROC code filter (two digit code 15-37) on their CIN numbers, 120 manufacturing foreign affiliates were selected (95 listed, 25 unlisted). Also, about 23 manufacturing FDI companies were identified from various other web sources.

By combining the information from the above three data sources, about **583** manufacturing foreign affiliated companies were identified with 430 unlisted and 153 listed companies. The company documents including the annual financial statements of these 583 firms were procured from the MCA website[36]. The foreign exchange transactions disclosures presented in XBRL format in the annual financial statements are analysed for this study (See Appendix 3). As the annual financial statements were not available for the various unlisted firms for a longer period, the foreign transactions of the sample firms were studied for only two recent years namely 2014-15 and 2015-16.

FDI invested firms were identified from the schedule 5 (part 2) document that provides information on equity share capital breakup and indicates the foreign shareholding in each company[37]. A number of companies in the sample were dropped due to data issues and inadequate foreign transaction disclosures like unreported aggregate or component-wise foreign exchange transactions, non-reporting of component-wise trade in either goods or services, multiple value reported for same transaction, exclusion of import value in total foreign exchange expenses or unreported unit value of some transactions[38].

For a further identification of manufacturing companies and for mapping any company to an industrial sector, the Indian Trade Classification (ITC) HS 8-digit code of the main product that earned highest revenue for the company in the study year was used[39]. Indian Trade Classification based on Harmonized System of Coding is provided by Directorate General of Foreign Trade (DGFT) that describes 98 product chapter codes under 21 sections. For this study, the sample companies were classified under twelve

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[36] As a part of Annual e-Filing, Companies incorporated under the Companies Act, 1956 are required to e-file various documents with the Registrar of Companies (RoC) namely Balance sheet, Profit & Loss account, Annual Return (Form 20B), Annual Return (Form 21A) and Compliance certificate. (www.mca.gov.in)

[37] The same shareholding value was further checked in annual returns document for the two study years to ensure that the foreign shareholder was a corporate body.

[38] In the sample of 583 companies, 49 companies did not report foreign exchange transactions or foreign promoter shareholding in annual reports and were dropped. 52 companies did not provide any component wise details of these transactions, 6 companies reported only export or imports, 67 companies did not report services or other transactions (only trade in goods) and few others had duplicate CIN numbers. These companies were either dropped or were included in analysis of only the type of transaction (total foreign exchange use or export/ import) that they had reported. For 19 companies, import values were not included in their reported total foreign exchange transaction, and the import value was added in their total forex expense value for this study. For some companies, a proxy value of unreported import or export was calculated by aggregating various individual related party foreign transactions if information was adequately available.

[39] 63 companies did not report NIC 2008 code of main product and 12 companies reported ITC HS 8 digit code in the place of NIC main product code in annual reports. Hence, ITC HS codes were used for identifying the main product instead of NIC codes due to better reporting by firms.

manufacturing sub-sectors that represented either any single ITC section name or a group of ITC section names covering chapters with similar type of products clubbed together[40] (See Appendix 2). Some ITC chapters like Pharmaceuticals (code 30), Machinery & mechanical appliances (code 84) and Electrical Machinery, Equipments & Electronics (code 85) with a high number of sample firms were considered as separate sectors for the study. The miscellaneous manufactured goods or some chapters with very few sample companies were clubbed as a separate sector namely 'Other manufacturing'. Also, various companies were classified under ITC code 99 and were found to be engaged in trading as well as some manufacturing activity. These companies were considered under a separate sector namely 'Diversified activity'[41].

Hence, a final sample of 469 manufacturing FDI firms including 138 listed and 331 unlisted manufacturing FDI firms was studied for two recent years namely 2014-15 and 2015-16. At least 14,070 individual foreign exchange transactions were identified under 18 types of broad foreign transaction heads like import or export of various categories of goods and services, royalty & technical payments, dividend payments and interest payments for this cross-section study covering two years[42, 43].

Apart from the cross-section analysis, a time series study was also undertaken for a smaller yet consistent set of manufacturing FDI firms for which data was available for a longer period over the post-reform years. The data was procured from the Prowess database of CMIE. The companies having the share of equity holding by foreign promoters (bodies corporate) as greater than 10 per cent from 2001 onwards in manufacturing sector were identified[44]. The manufacturing companies were identified from the ten pre-defined sub-sectors classified by the database under the sub-head 'Manufacturing' (non-financial industry)[45]. Only the companies reporting a continuous time series, having incorporation

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[40] The sectoral classification used in the study is defined as: **sector 1** (section 2+3+4), **sector 2 & 3** (section 6), **sector 4** (section 7), **sector 5** (section 5 +13), **sector 6** (section 15), **sector 7& 8** (section 16), **sector 9** (section 17), **sector 10** (section 18). Sector 2 (part of section 6) and sector 7 and 8 (part of section 16) were considered as separate sectors for the study due to high number of sample firms falling under these sectors. The miscellaneous manufactured articles (section 20) and few other chapters under various sections (section 8, 10, 11, 12) that had very few companies in the sample were clubbed as **Sector 11**. **Sector 12** covered manufacturing companies under ITC chapter code 99 and were engaged in trading and services activity also. (See Appendix 2)

[41] Some companies under ITC chapter 99 were found to be engaged in trading or other services activity only, and were excluded from the sample.

[42] The foreign exchange transactions and various company identity indicators were mapped by manual data entry in nearly 30,016 cells.

[43] The various types of 'Services income or other earnings', 'Technology linked payments' and 'Services or other payments' covered in this study are presented in Appendix 4, 5 and 6 respectively.

[44] The information on foreign ownership data for several companies is not available in the Prowess database for years prior to 2001, and the same was explored for individual companies from BSE & NSE websites, respective company websites and various other websites reporting company history.

[45] See footnote 35.

before 1991-92 and having sales value higher than Rs. 10 crores over the period are considered to ensure that smaller sized companies are excluded from analysis.

After applying these filters, a set of 110 manufacturing FDI firms were selected for the study. These firms belonged to six manufacturing sub-sectors namely Chemicals, Drugs & Pharmaceuticals, Electrical equipments and Electronics, Non-electrical Machinery, Transport Equipments and Diversified group. The sample comprised mainly Listed firms (97) and few unlisted firms (13), and their annual foreign exchange transactions (component-wise) was analyzed over a period of 24 years from 1993-94 to 2016-17[46]. The study period covers most part of the post-reform years[47].

4. Findings from Secondary Sources

An important source of information on the foreign exchange usage by foreign affiliated companies is the surveys of "Finances of FDI companies" published annually by Reserve Bank of India (RBI) in its monthly bulletin since 1999. The surveys have covered sample companies for the period 1990-91 to 2015-16, and provide information on aggregate annual foreign exchange earnings and expenses on different account heads including imports and exports for a set of three years.

The surveys of "Finances of FDI companies" show that varying samples of FDI companies have reported substantial net losses of foreign exchange on an aggregate in majority of individual survey years (values averaged over three survey years) particularly since 2003-04 (See Chart 3). The net foreign exchange losses[48] have been more than Rs. 40,000 crores in some recent years. A similar negative net impact on the trade account is observed for FDI companies, where the net export earnings[49] (three year averages) of FDI companies have been only negative since 2003-04 (See Chart 4). Even while the figures are not comparable over the study years due to coverage of inconsistent sample by different surveys, a predominantly negative contribution of FDI companies to the current account and trade account of BoP of India in individual years is evident. The sample includes manufacturing as well as firms from other sectors.

The sector wise data on foreign exchange use by FDI firms is available in the RBI surveys for the period 1990-91 to 2003-04. However, the sector-wise classification of FDI

[46] Several companies in the prowess database showed gaps in time series and many had different financial years that did not always represent four quarters or similar quarters. These data gaps (450) arose due to errors in reporting, non-reporting or frequent changes in financial year by firms. The data was annualized for each transaction head having reported data and the gaps were filled by annualizing the next year reported value.

[47] The years 1991-92 and 1992-93 were not considered in order to include some firms in sample that had incorporation in these two years.

[48] Net foreign exchange earnings are expressed as the difference between total foreign exchange earnings and total foreign exchange expenses.

[49] Net export earnings are expressed as the difference between total export earnings and total import expenses.

companies is similar and comparable only for few years over the 1998-99 to 2003-04 period across seven industrial groups. It is observed that the FDI companies in some key manufacturing sectors like Chemicals and chemical products, Machinery and machine tools, Electrical machinery and apparatus and Motor vehicles and other transport equipments have reported reasonable net foreign exchange losses on an aggregate basis (three year averages) in each of the surveyed years (See Chart 5)[50]. After 2003-04, even though the sector wise data is available for manufacturing sector but it is presented in terms of growth rates which is not comparable across years.

The information on export and import transaction for a much larger set of foreign subsidiary companies in manufacturing sector is available in the Annual Census on Foreign Liabilities and Assets (FLA) of Indian Direct Investment Companies published by RBI since 2012-13. Companies with higher than 50 per cent of shareholding owned by foreign companies are identified as foreign subsidiaries by this survey. Also, the companies are mapped to various sectors on the basis of the 5-digit ROC code in their respective CIN numbers.

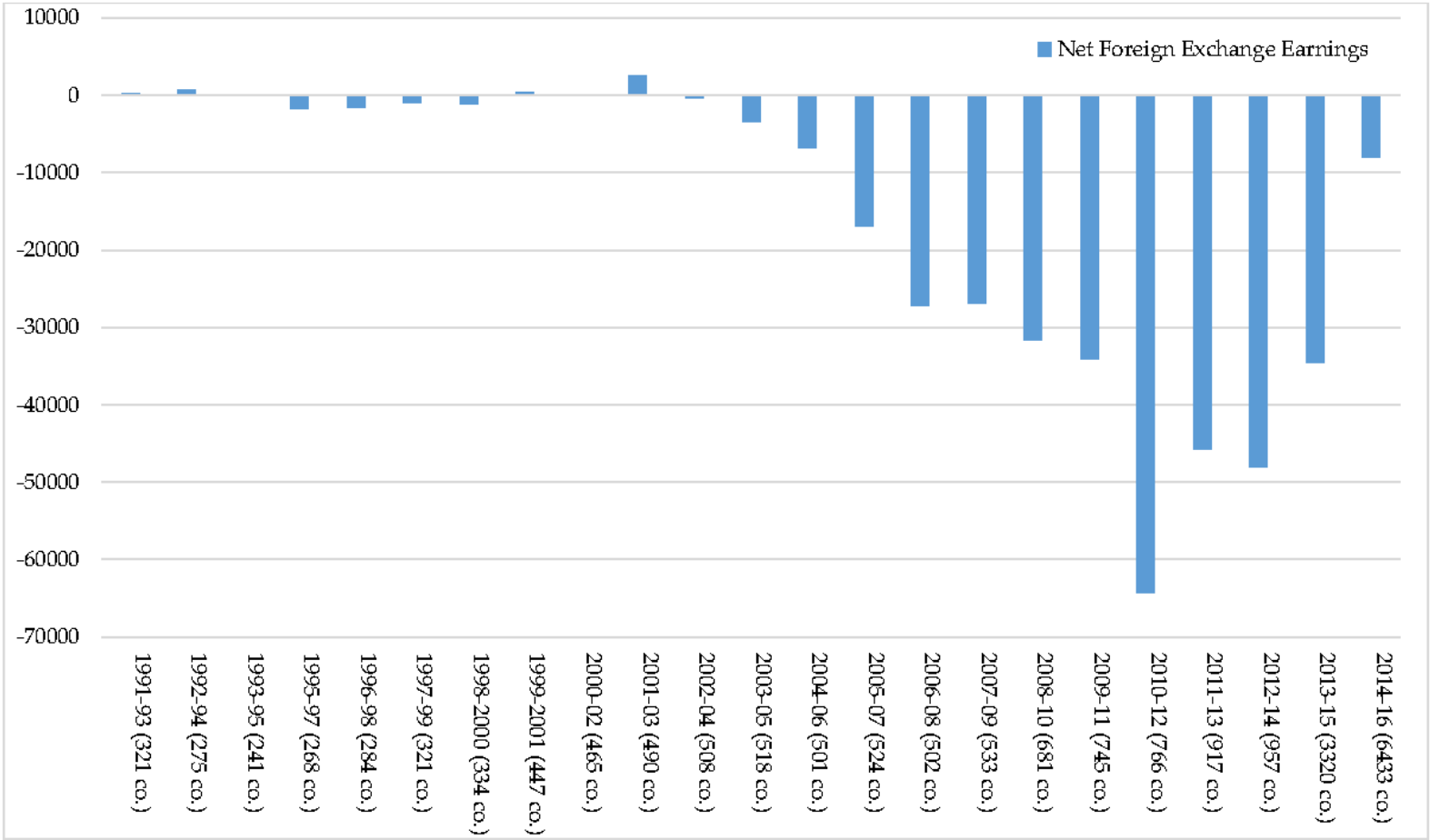
The manufacturing sector accounted for at least half of the share of total FDI stock (Equity) at market value in the various surveyed years and represented a significant share of the vast sample of foreign direct investment companies[51] surveyed. For the manufacturing foreign subsidiary companies, the net export earnings remained negative in each survey year from 2012-13 to 2017-18 on an aggregate, even while the foreign subsidiaries has nearly doubled from 7,528 firms to 15,596 firms over the same period (See Table 1). This negative pattern is observed in nearly each reported survey year for some manufacturing sectors like Food products, Coke and refined petroleum products, Chemicals and chemical products, Computer, electronic and optical products and Electrical equipments. On the other hand, foreign subsidiaries in sectors like Pharmaceuticals, medicinal and chemical products, Machinery and equipment and Motor vehicles, trailers and semi-trailers were mostly positive net exporters on an aggregate.

[50] The coverage of years by the four surveys in RBI Bulletin are: April 2003 (1998-99 to 2000-01); December 2003 (1999-00 to 2001-02); April 2005 (2000-01 to 2002-03); April 2006 (2001-02 to 2003-04). The coverage of FDI companies in each survey year respectively for the industrial groups are: Food products and beverages (19, 18, 16, 18 companies) ; Chemicals and chemical products (66, 67, 76, 78 companies) ; Rubber and plastic products (12, 14, 11, 15 companies); Machinery and machine tools (81, 78, 85, 82 companies); Electrical machinery and apparatus (35, 36, 33, 30 companies); Motor vehicles and other transport equipment (31, 32, 35, 32 companies); Computer and related activities (23, 25, 23, 25 companies).

[51] Includes foreign subsidiaries, associates and other companies having inward foreign investment.

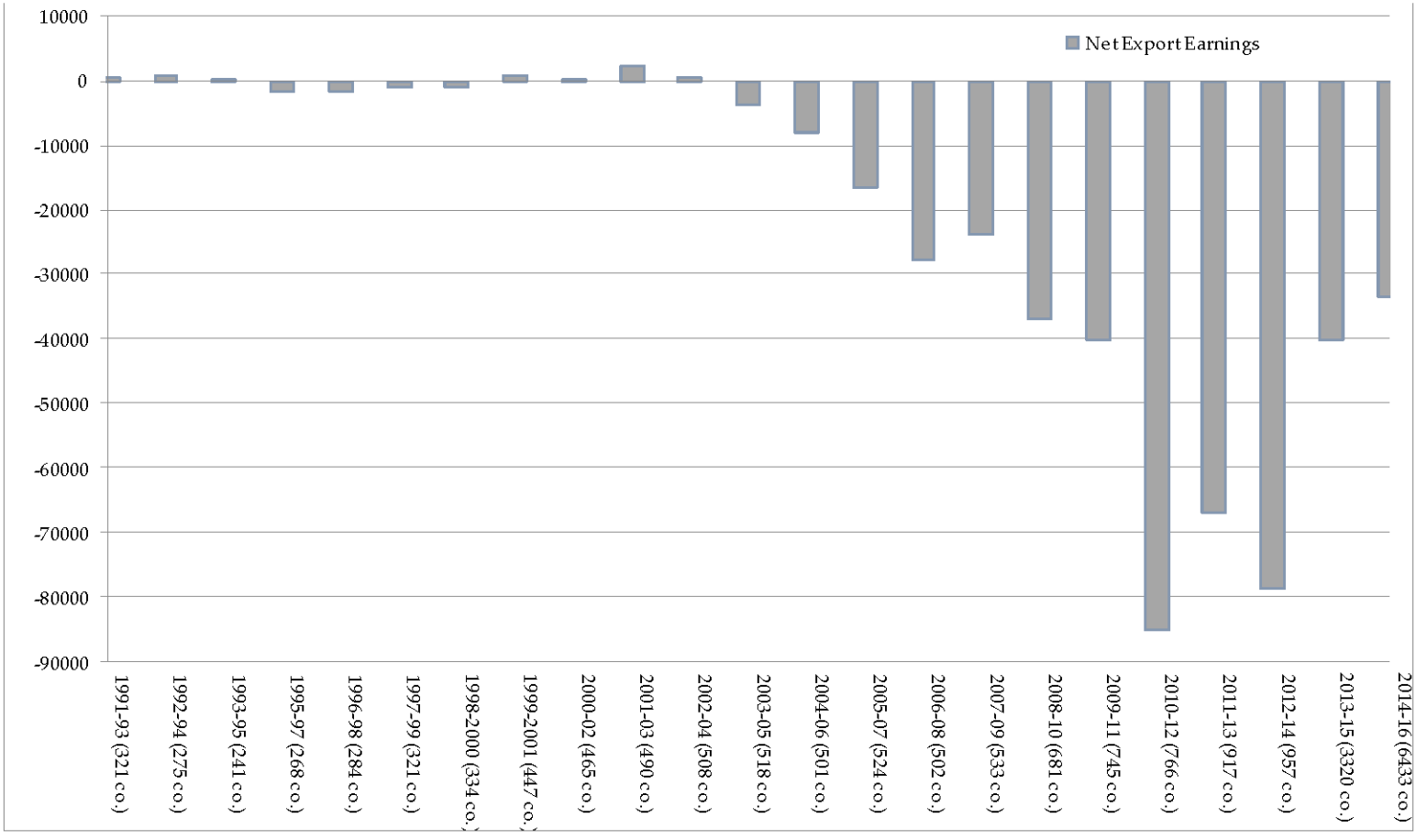
Chart 3: Net Foreign Exchange Earnings of FDI companies based on various RBI surveys (1993-2016)

(3 Year Averages, value in rupees crores)



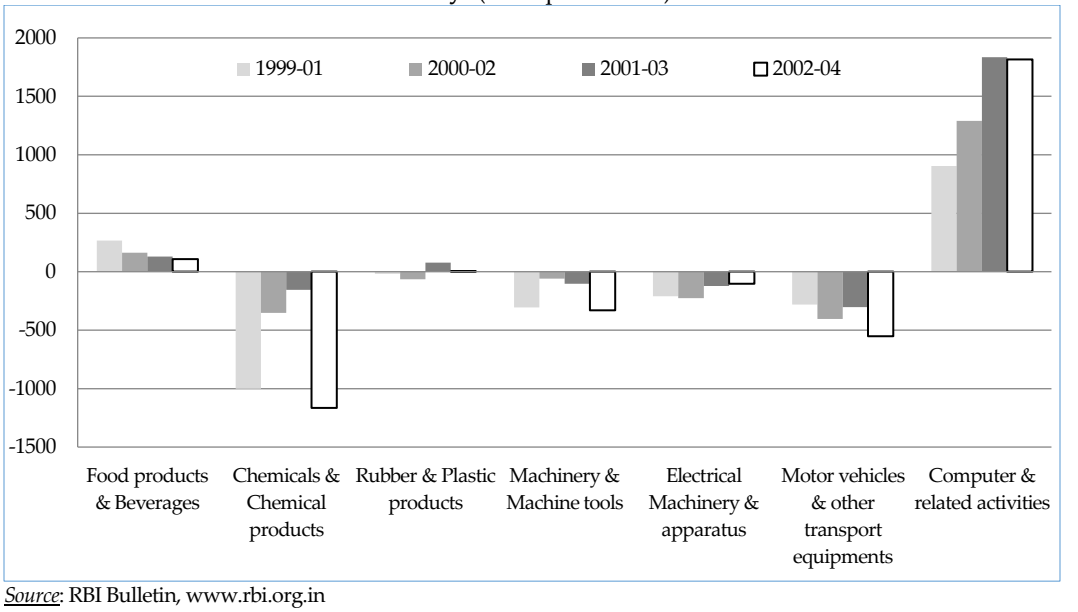
Source: RBI Bulletin, www.rbi.org.in (Net Foreign exchange earnings = total foreign exchange earnings - total foreign exchange expenses; figures are rounded off to nearest integer)

Chart 4: Net Export Earnings of FDI companies based on various RBI surveys (1993-2016)
(3 Year Averages, value in rupees crores)



Source: RBI Bulletin, www.rbi.org.in (Net export earnings = total export earnings - total import expenses; figures are rounded off to nearest integer)

Chart 5: Net Foreign Exchange Earnings of FDI companies by Industry Groups based on various RBI surveys (in Rupees Crores)



Source: RBI Bulletin, www.rbi.org.in

Table 1: Net Export of Subsidiaries of Manufacturing Foreign Companies based on RBI Annual FLA Census (Value in Rupee Billion)

	Sectors	*2012-13*	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*
A.	**Manufacturing (Total)**	**-1103.1**	**-1214.1**	**-968.3**	**-1337.1**	**-1043.8**	**-1418.3**
1	Food Products	17.1	-296.7	-50.4	-460.5	-35.8	-79.6
2	Coke and refined petroleum products	-394.2	-325.6	-213.1	-62.5	-45.4	4.5
3	Chemicals and Chemical products	-30.4	-55.4	-58.5	-104.5	-68.4	-162
4	Pharmaceuticals, medicinal and chemical products	9.2	28.1	3.9	15.8	34.7	80.9
5	Computer electronic and optical products	-301.9	-371	-307.8	-351.3	-354.3	-526.7
6	Electrical equipment	-56.5	-54.8	-58	-68.2	-69.5	-147.4
7	Machinery and equipment	18	36.9	37.8	73.9	38.2	-14
8	Motor vehicles, trailers and semi-trailers	NA	4.6	31.8	94.3	26.5	175.4
B.	**Coverage of Subsidiary Cos. (nos.)**	**7,528**	**9,081**	**10,777**	**10,794**	**12,244**	**15596**
C.	**Share of Manufacturing sector in Total FDI Equity# (in %)**	**49.8**	**49.6**	**52.15**	**49.65**	**50.26**	**51.35**

NA: Not Available/Mentioned; # : At market value, includes foreign subsidiaries, associates and other companies having inward foreign investment.

Source: RBI , Annual Census on Foreign Liabilities and Assets of Indian Companies 2012-13 & 2013-14 & Census on Foreign Liabilities and Assets of Indian Direct Investment Companies, 2014-15, 2015-16 , 2016-17 & 2017-18.

On an aggregate basis, the RBI surveys provide indicative evidence of a tendency of large number of FDI companies for incurring net foreign exchange losses on current and trade account in recent decades. A similar tendency is indicated for a majority of

manufacturing FDI foreign subsidiaries on the trade account by the FLA Census report of RBI. Companies in some high technology intensive sectors are indicated to affect the trade or current account negatively on an aggregate basis in various survey years by the two data sources but the sector-wise classification is not comparable to draw any meaningful inferences. Due to inconsistent sample size, the figures are not comparable across years. Also, aggregate transaction values can be affected by high transaction values of some large companies. Hence, a closer evaluation at firm-level is required for a consistent set of FDI firms operating in the manufacturing sector.

5. Firm Level Cross-Section Analysis: Main Findings

A firm-level cross-section study of foreign exchange transactions of a consistent set of 469 foreign affiliated manufacturing firms is undertaken for two recent years 2014-15 and 2015-16. Out of the 469 sample firms, 405 firms were foreign subsidiaries with higher than 50 per cent of shareholding by foreign promoter. The remaining 64 firms were associate firms (foreign promoter share holding less than 49 per cent) or joint ventures (50 per cent foreign ownership). Out of the trade values of all manufacturing foreign subsidiaries covered in the recent FLA Census years by RBI, the manufacturing foreign subsidiaries (405) covered in the sample account for about 31.28 per cent and 40.28 per cent of exports and 47.44 per cent and 51.08 per cent of imports in the years 2014-15 and 2015-16 respectively. Hence, the sample manufacturing foreign subsidiary firms fairly represent the overall manufacturing foreign subsidiary firms in the study years as per the RBI FLA Census report [52].

The distribution of sample firms across the twelve manufacturing sub-sectors is presented in Table 2. More than two-third (70%) of sample firms are unlisted. Sixty per cent of sample firms fall under the four key sectors namely Chemicals or allied industries, Machinery & mechanical appliances, Electrical machinery, equipments & electronics and Vehicles & Transport equipment. Firms of these four sectors accounted for nearly two-third (67.5%) of the aggregate sales in 2015-16 by the total sample firms as well.

The export and import intensity of sample firms of various sectors is indicated in Chart 6. The export intensity of overall sample FDI firms is nearly 12 per cent in each study year, indicating that the domestic sales accounted for about 88 per cent of their aggregate sales. The domestic sales share was 80 per cent or higher for FDI firms in ten sectors in 2015-16. It is evident that the sample FDI firms in a majority of manufacturing sectors, on an aggregate basis, have domestic market-seeking tendency and have very limited export orientation.

[52] Only a rough comparison could be drawn between the two studies as the manufacturing companies are classified on the basis of ROC codes in CIN numbers of firms by the FLA Census of RBI. However, the sample firms for this study are classified as manufacturing on the basis of ITC HS code of main product contributing maximum share of revenue in a given year.

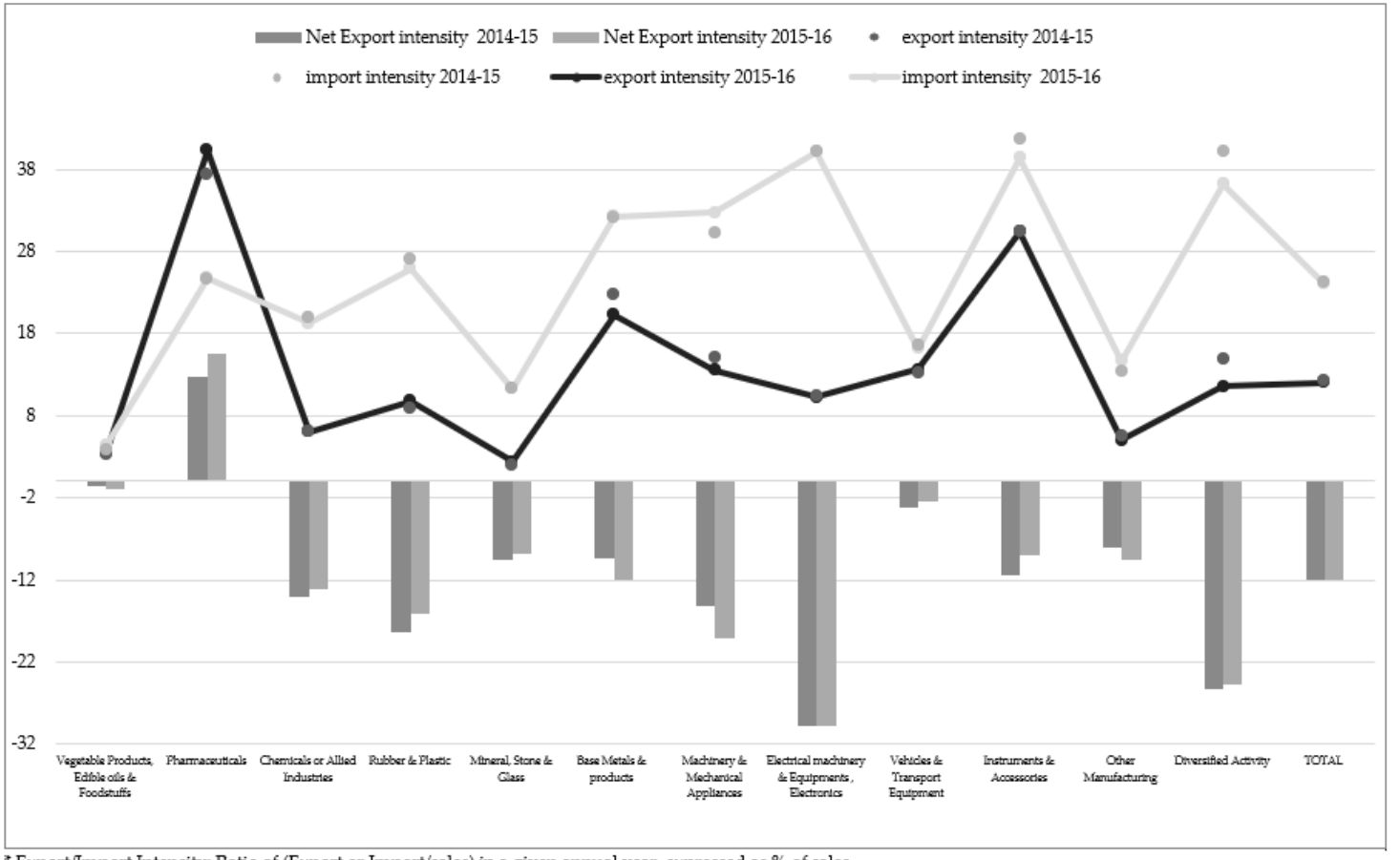
Table 2: Description of Sample FDI Firms

SN	*Sectoral Classification (12)*	*ITC-HS Chapter codes (2 Digit)*	*Number of Firms in sample*		
			Listed	*Unlisted*	*Total*
1	Vegetable Products, Edible oils and Foodstuffs	6 - 24	8	12	**20**
2	Pharmaceuticals	30	8	17	**25**
3	Chemicals or Allied Industries *(Excluding Pharmaceuticals)*	28-29, 31-38	21	36	**57**
4	Rubber & Plastic	39-40	9	17	**26**
5	Mineral, Stone & Glass	25-27, 68-70	11	1	**12**
6	Base Metals & products	72-83	12	19	**31**
7	Machinery & Mechanical Appliances	84	25	65	**90**
8	Electrical machinery & Equipments, Electronics	85	19	39	**58**
9	Vehicles & Transport Equipment	86-87	11	63	**74**
10	Instruments & Accessories *(Optical, Precision, Medical etc.)*	90-92	3	18	**21**
11	Other Manufacturing	42, 48, 57, 61, 64, 94-96	7	11	**18**
12	Diversified Activity *(Manufacturing & Trading/Services)*	99	4	33	**37**
	TOTAL : Number of Firms : % of all firms		**138** *29.4%*	**331** *70.6%*	**469** *100%*

Source: Compiled from Company Annual Reports downloaded from Ministry of Corporate Affairs website

High export intensity and positive net export intensity is observed for FDI firms in only Pharmaceuticals sector. For the remaining sectors, the import intensity is higher than export intensity and net export intensity remained negative in both years. The import intensity was more than double the export intensity in seven sectors in both the study years. The import intensity is double the export intensity of the total sample FDI firms in both years, and the net export intensity is negative for overall sample indicating the propensity for losing foreign exchange (net basis) on trade account by the manufacturing FDI firms.

Chart 6: Export and Import Intensity of Sample FDI firms (Sectoral aggregate)



* Export/Import Intensity: Ratio of (Export or Import/sales) in a given annual year, expressed as % of sales.

Source: Same as Table 2

A similar tendency for net foreign exchange losses on trade account is observed when foreign exchange transactions are examined in terms of absolute values for the sample FDI firms. Chart 7 shows that the FDI firms in 11 manufacturing sub-sectors report negative net exports due to much higher values of imports compared to exports. The net exports were positive only for Pharmaceuticals sector particularly due to very high export values for the company Mylan Laboratories Ltd.[53,54], excluding which the net exports are negative in this sector as well. The aggregate imports were about double the value of aggregate exports for the overall sample FDI firms as the net exports remained negative in both study years. Two sub-sectors namely Electrical Machinery, equipments & electronics and Machinery & mechanical appliances accounted for majority (57%) of the net export loss value by the overall sample in 2015-16.

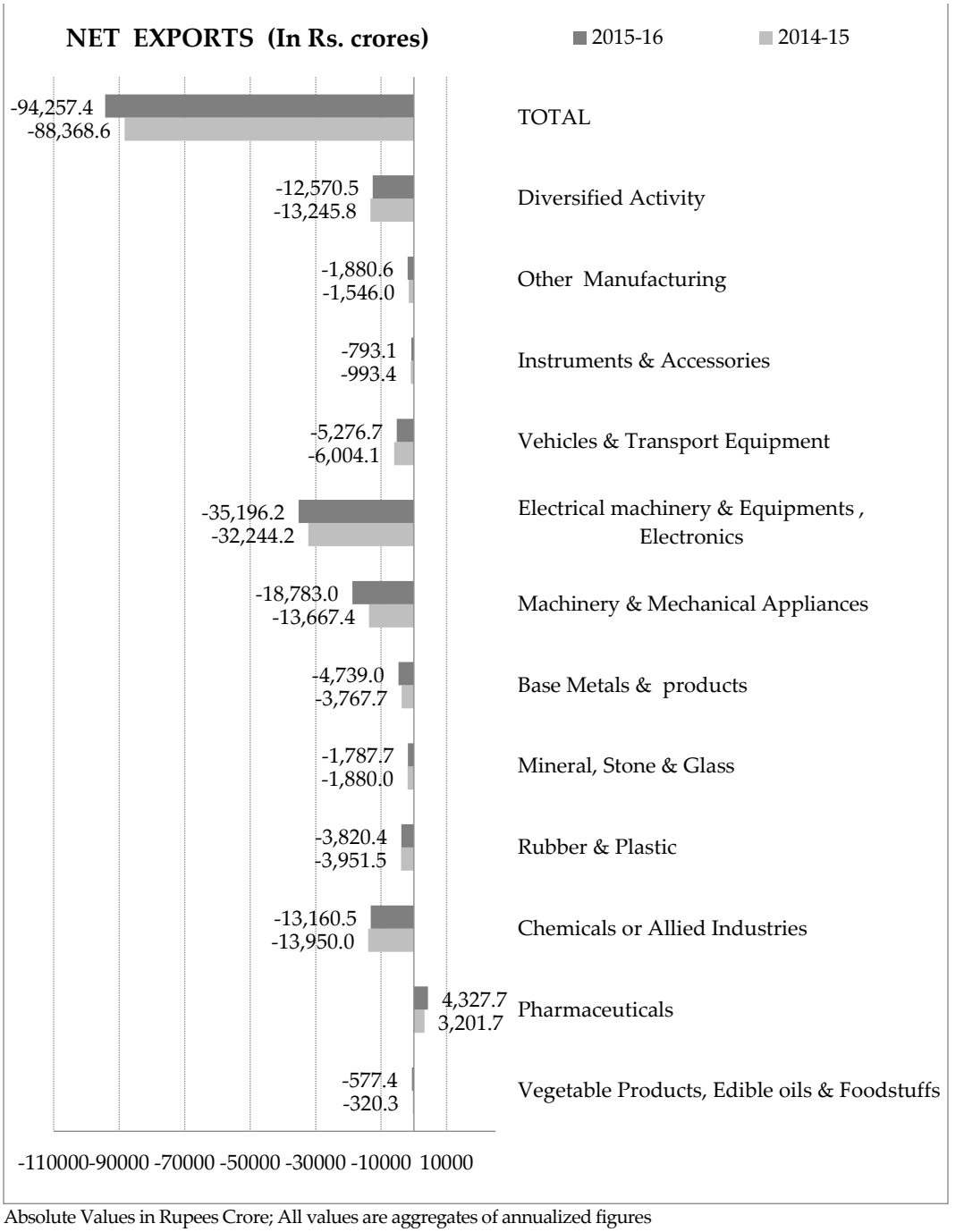
A propensity for substantial net foreign exchange losses on the current account of BOP is evident for sample FDI firms on an aggregate basis where the foreign exchange expenses were nearly double the value of foreign exchange earnings for the sample firms in both years. Chart 8 indicates that the net foreign exchange earnings are negative in 11 manufacturing sub-sectors and also in the Pharmaceuticals sector if Mylan Laboratories Ltd., the company with very high export earnings, is excluded from the sample. In 7 sub-sectors, foreign exchange expenses were double or higher multiples of foreign exchange earnings values. Three sub-sectors namely Chemicals or allied industries, Electrical Machinery, equipments & electronics and Machinery & mechanical appliances accounted for two-third (66.4%) of the overall net foreign exchange losses by the sample.

Table 3 shows that more than two-third of overall sample FDI firms report net foreign exchange losses on current account of BOP in both study years, where nearly one-third (30-32%) of the sample reported net foreign exchange losses of higher than Rs. 100 crores. An almost similar pattern is noted for sample firms on the trade account as well. Among the FDI firms reporting net foreign exchange losses, at least 70 per cent firms are unlisted and about 88 per cent are foreign subsidiaries. Also, two-third firms have been incorporated at least 10 years ago and are not new which indicates that several FDI manufacturing firms are affecting the current account adversely even after being operational in the economy for at least a decade.

[53] This company was originally an Indian company named as Matrix Laboratories Ltd. that was acquired recently by a foreign company, Mylan Inc., USA, that had acquired a majority stake in it in 2006 and 100% stake in 2009. The company name was changed later to Mylan Laboratories in 2011.

[54] Pharmaceutical foreign subsidiaries have been argued to have reported trade surplus because of acquisition of Indian companies with international market presence by them. (See Rao & Dhar, 2015, pp. 10)

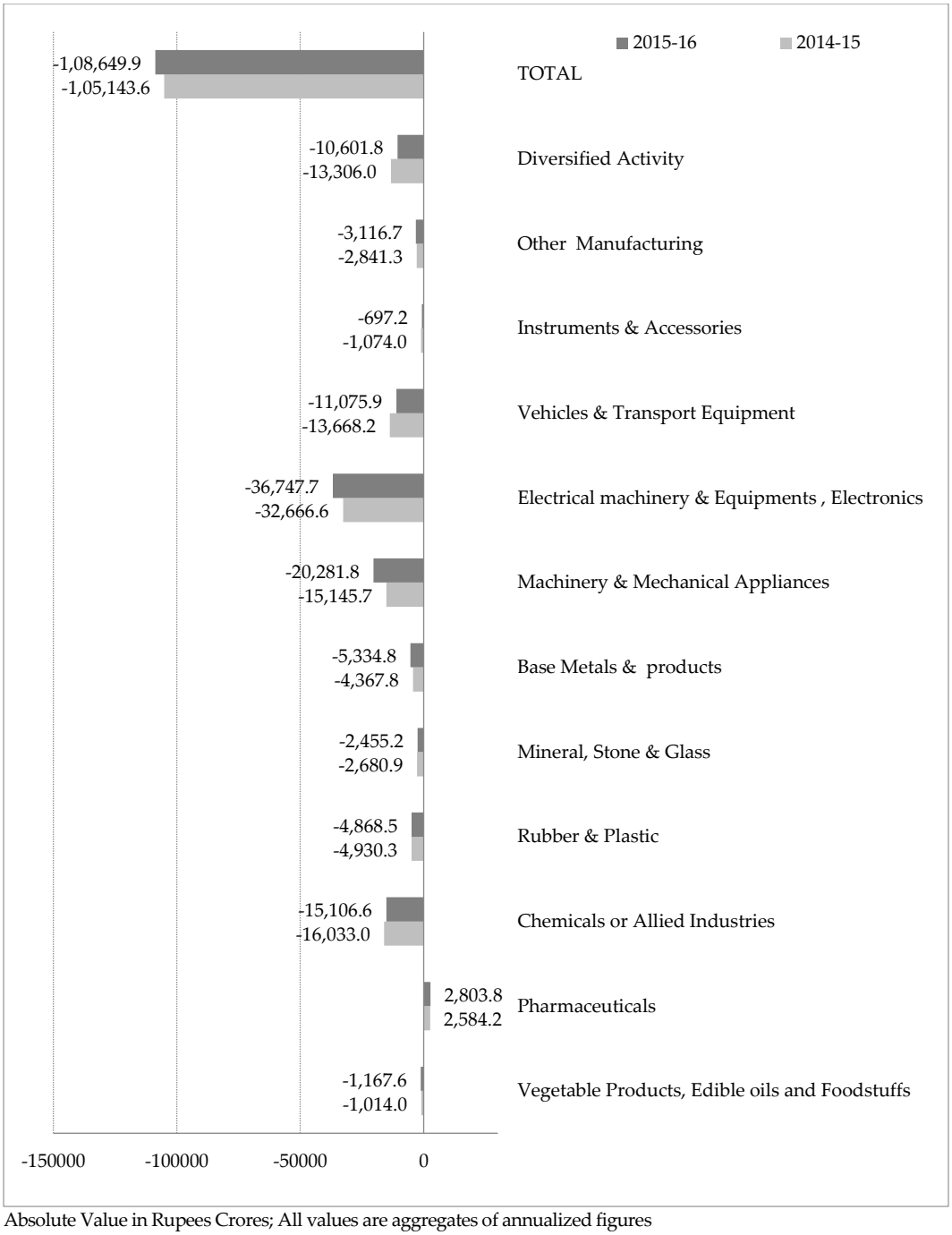
Chart 7: Net Exports by Sample FDI Firms (Sectoral Aggregate Value in Rs. Crore)



Absolute Values in Rupees Crore; All values are aggregates of annualized figures

Source: Same as Table 2

Chart 8: Net Foreign Exchange Earnings by sample FDI firms (Sectoral Aggregate value in Rs. Crore)



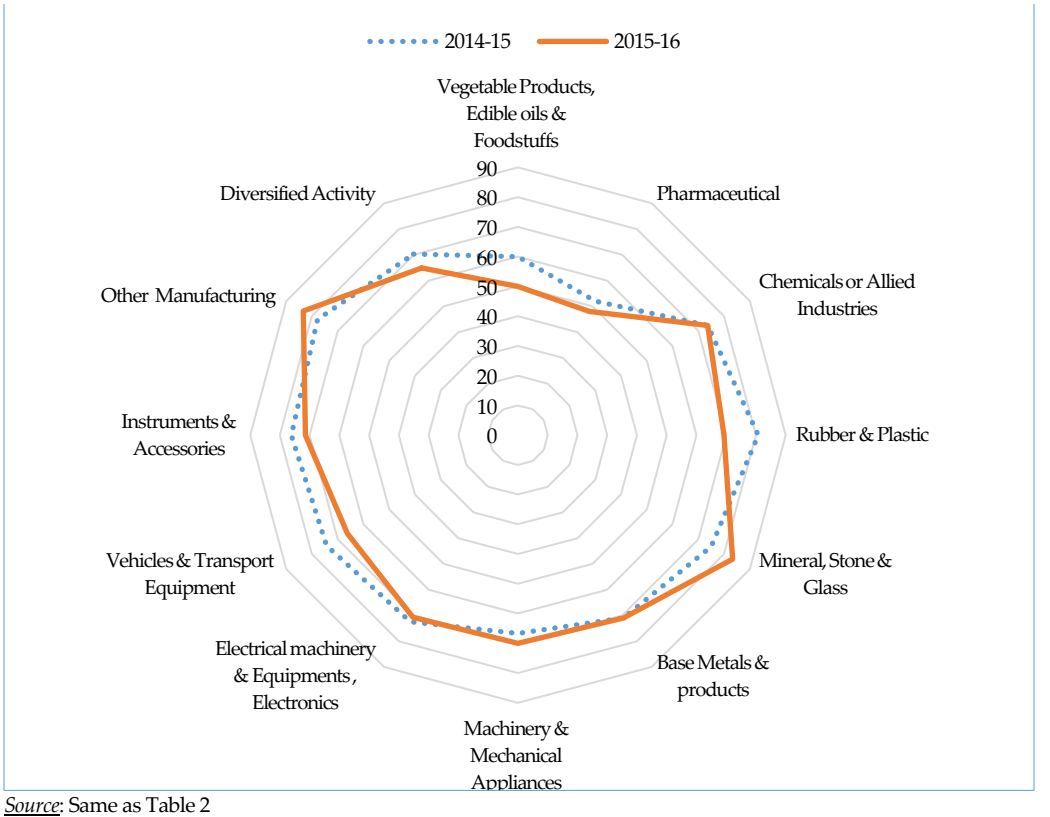
Absolute Value in Rupees Crores; All values are aggregates of annualized figures
Source: Same as Table 2

Table 3: Share of Sample FDI Firms Reporting Net Foreign Exchange Loss

SN.	*Description*	*2014-15*	*2015-16*
1	Firms reporting foreign exchange transactions (A)	469	467
2	Firms reporting net foreign exchange outflows (B)	332	321
3	Share of B in A	*70.78%*	*68.73%*
	In B : Share of unlisted firms	*72%*	*70.40%*
	: Share of wholly-owned or majority owned firms	*88.25%*	*87.22%*
	: Share of firms having incorporation before 2006	*69.27%*	*71.33%*
4	Firms reporting > Rs. 100 Cr net foreign exchange outflows in A	30.27%	32.97%
5	Firms reporting Export/ import transactions (D)	465	461
6	Firms reporting negative net exports (E)	317	309
7	Share of E in D	68.17%	67.02%
8	Firms reporting> Rs. 100 Cr negative net exports in D	29.24%	32.32%

Source: Same as Table 2

Chart 9: Share of FDI Firms Reporting Net Foreign Exchange Loss in Each Sector (%)



Source: Same as Table 2

The share of FDI firms reporting net foreign exchange loss in each of the 12 manufacturing sub-sectors is depicted in Chart 9. At least two-third of the sample FDI firms in 10 sub-sectors report net foreign exchange losses in both study years. In the other two sub-

sectors also, about half of the sample firms reported a similar tendency. Hence, the tendency to loose foreign exchange is reported by nearly a majority of firms in each of the studied sectors.

The top 30 net foreign exchange loss making firms accounted for about 80 per cent of aggregate net foreign exchange losses by the sample and these large firms are associated with substantial values of foreign exchange transactions on the current account of BoP. For a number of sample FDI firms reporting high values of net foreign exchange losses, the net foreign exchange loss intensity (as per cent of sales) was considerably high as well. The loss intensity was negative for about 68.4% firms, and was higher than 15% for close to half (42.6%) of firms. About 12% of firms reported loss intensity as being 50% or higher[55]. Chart 10 presents 25 sample FDI firms having very high net foreign exchange loss value (on primary axis) and loss intensity (on secondary axis) in the year 2015-16.

The tendency for limited net addition to the trade account of BoP via exports is evident in some specific cases of sample FDI firms, whose low export earnings are offset by comparatively much higher import values. Chart 11 indicates 25 sample FDI firms that reported high import values and very low or negligible export values in 2015-16. Almost each of them are majority or wholly-owned foreign subsidiaries and several of them are at least ten year old. Chart 12 presents some other FDI firms that have reported certain export values in 2015-16, but their import values are relatively much higher in the same year resulting in net outflows of foreign exchange. All of these firms are majority or wholly-owned foreign subsidiaries, and some of them have been operational for at least twenty year in the economy.

The share of various components of foreign exchange expenses in the total foreign exchange expenses by the sample FDI firms is estimated for the year 2015-16. Chart 13 shows that imports account for predominant share of foreign exchange expenses, while various services linked transactions[56] and technology linked transactions were the other two main heads on which the remaining share of foreign exchange was spent by sample firms. Only one per cent was spent on Dividend payouts. However, due to underreporting of various types of foreign transactions by sample firms, about 2.6 per cent share of the total foreign exchange expenses remain untraceable.

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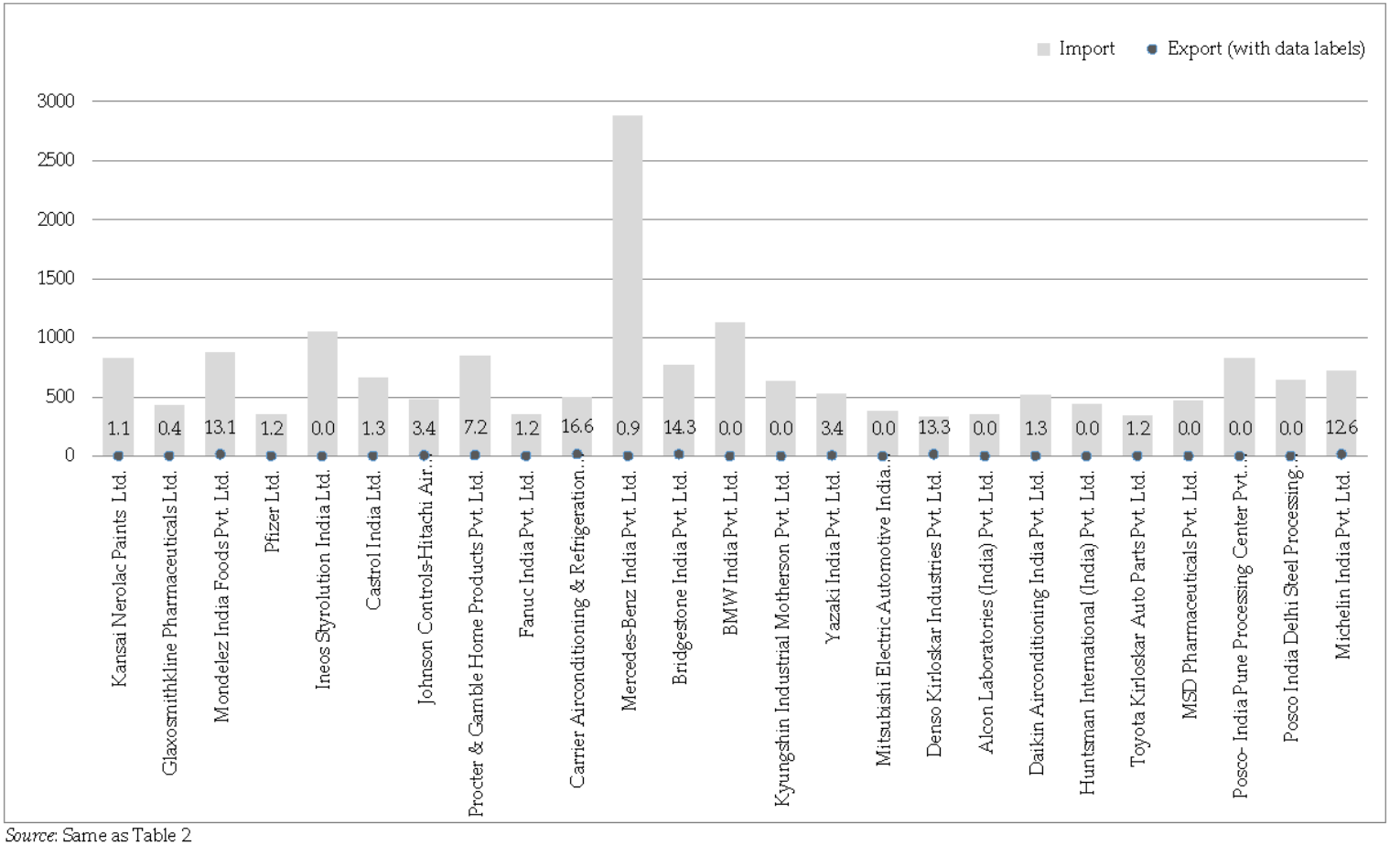
[55] Some small sized FDI firms reporting net foreign exchange losses were also found to have very high net foreign exchange loss intensity. Some firms are: Victor Reinz India Private Ltd. (-86.86%, 2014-15); Daiichi N Horizon Autocomp Private ltd. (-77.51%, 2015-16); Mitsuboshi Belting India Private Limited (-64.32%, 2014-15); Luxfer Uttam India Private Ltd. (-65.04%, 2015-16) etc.

[56] As some companies did not report interest payments separately and clubbed the values with other services and miscellaneous transaction payments, they are included under the 'total services' transaction head in this study.

Chart 10: High Net Foreign Exchange Loss & Loss Intensity for 25 FDI firms in 2015-16

Source: Same as Table 2

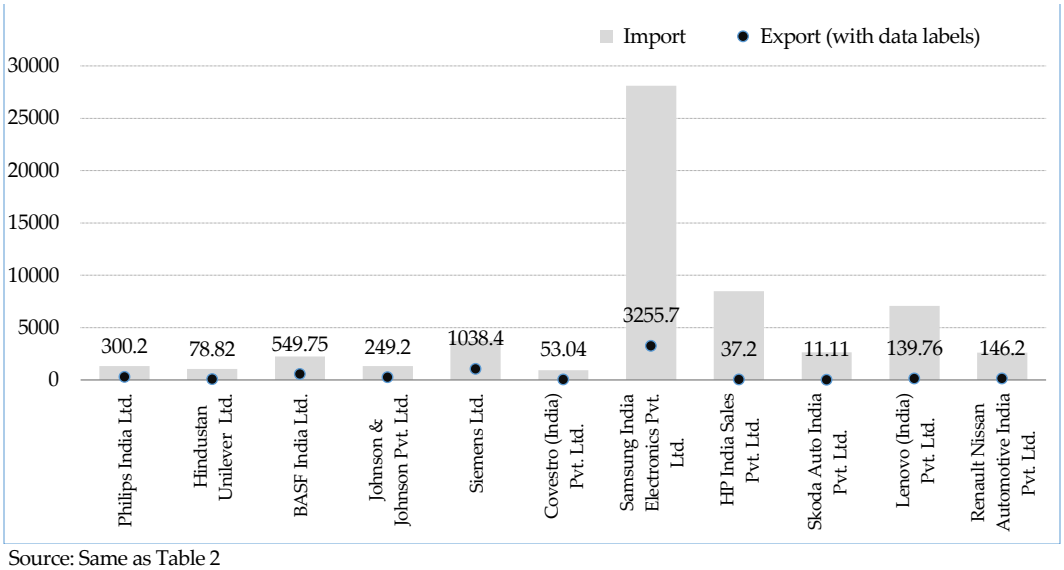
Chart 11: High import and very low export by some FDI firms in 2015-16 (Rs. Crore)



Source: Same as Table 2

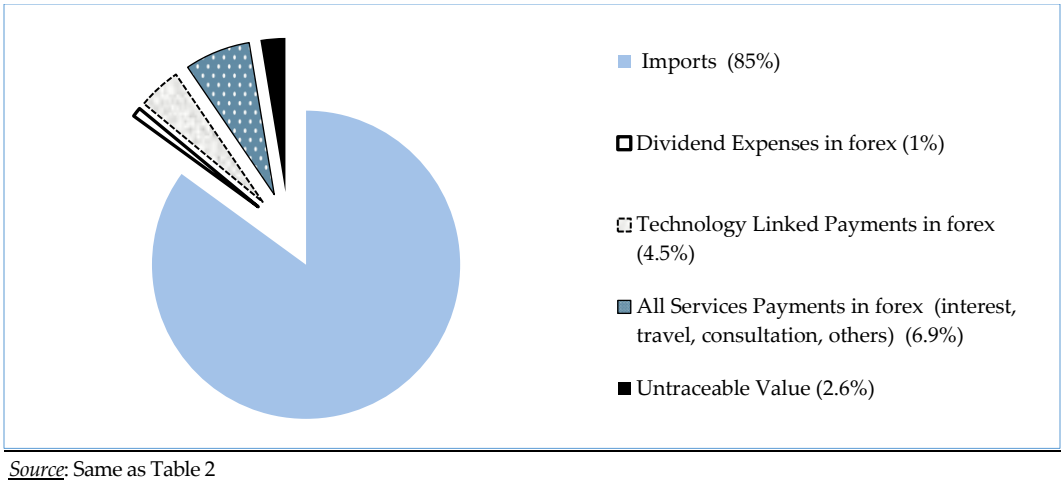
Chart 12: Some FDI

Firms Reporting Exports with Very High Import Values (Rs. Crore)



Source: Same as Table 2

Chart 13: Various Components of Foreign Exchange Expenses by Sample FDI Firms, 2015-16



Source: Same as Table 2

Foreign exchange was spent by the sample FDI firms on about 80 types of technology linked payments (Appendix Table 5) and about 150 varieties of services linked payments or other miscellaneous payments (Appendix Table 6). Several of these payment varieties have attracted substantial tax adjustments in recent transfer pricing audits, and many of these payment channels are highly vulnerable to mispricing for profit shifting purposes by MNC network companies. Table 4 illustrates some cases where sample manufacturing FDI firms have spent high value of foreign exchange on diverse technology linked and services linked transactions. In some cases, the FDI firms have engaged in multiple types of services transactions in foreign exchange, which increases the complexities involved in conducting a fair tax audit of these transactions.

Table 4: Illustrative list of FDI Cos. with High Value Technology Linked Payments & Services/Other Payments in 2015-16

SN.	*Name of Company*	*Transaction value (Rs. Crore)*	*Description of Transaction*
FDI Cos. with High Value Technology Linked Payments (2015-16)			
1	Maruti Suzuki India Limited	3386.0	Royalty (3244.3), Technical services (141.7), Lump-sum royalty and engineering support (167.8)
2	Samsung India Electronics Private Limited	2002.4	Royalty* (1967.5), Technical Assistance Fees/others* (34.89)
3	Hyundai Motor India Limited	1014.3	Royalty (848.32), Know-how (79.5), technical assistance fees (7.64 & 27.86), supervision fee for asset installation (50.95)
4	Hindustan Unilever Limited	875.6	Royalty
5	Nestle India Limited	430.4	General License fees (361.7), Project Management Costs for Capital Projects (2.57), Information Technology and Management Information Systems (66.16)
6	ABB India Limited	383.0	Royalty (292.16), Information Technology expenses (90.84)
7	Procter & Gamble Home Products Private Limited	252.5	Royalty (239.81), Computer Expenses (12.71)
8	Reckitt Benckiser (India) Pvt. Ltd.	211.8	Royalty
9	L.G. Electronics India Private Limited	198.2	Royalty (195.8), R&D expense (2.4)
10	Colgate-Palmolive (India) Limited	196.9	Royalty
11	Bosch Ltd.	160.1	Royalty & Technical service fee
12	Mondelez India Foods Private Limited	147.4	Royalty (98.15), Information Technology Expenses (49.23)
13	Kone Elevator India Private Limited	122.3	License and technical assistance fees
14	Philips India Limited	118.4	Royalty (25), IT & Communication fee (93.4)
FDI Cos. with High Value Services/Other Payments (2015-16)			
1	Mylan Laboratories Limited	739.4	Professional & consultation fee (525.6), sales commission (89.89), salary, expense on ESOP (26.96), others (96.91)
2	Hyundai Motor India Limited	734.6	Freight Expenses (532.9), Advertisement and Sales Promotion (25.89), travel (33.54), Warranty expenses (142.3)
3	Siemens Limited	514.5	Expenditure on contracts at foreign sites (39.8) +IT cost and other services purchased (150.9) +others (323.8)
4	Ashok Leyland Limited	396.0	consultation (12.66), commission on sale (114.2), freight charge, product warranty, packing & forwarding, others (269.13)
5	Johnson & Johnson Private Limited	300.4	Professional & consultation (192.3), others (108.14)

SN.	*Name of Company*	*Transaction value (Rs. Crore)*	*Description of Transaction*
6	GE India Industrial Private Limited	230.0	professional & consultation fee (41.22), Training and seminar expenses (9.17), Travelling (11.73), Communication (11.69), Staff welfare (3.11), Corporate charges (85.77), Service charges and others (67.32)
7	Maruti Suzuki India Limited	218.8	Supervision charges capitalised (65.3), Others (153.5)
8	Bosch Ltd.	217.9	Professional fees, travelling, trainees' expenses, others
9	ABB India Limited	209.7	Trade-mark fees (66.99)+others (142.74)
10	Mondelez India Foods Private Limited	173.0	Professional fee, consultation (17.62), Regional/Global Management Services (133.12), others (22.28)
11	Cummins Technologies India Private Limited	151.4	material supplier management services (98.35), travel, reimbursement, others (53)
12	Colgate-Palmolive (India) Limited	133.3	traveling, services, others
13	Essar Steel India Limited	123.3	professional and consultation fees (19.26)+others {Commission, Capital Contract & Services and Others } (104.04)
14	Exxonmobil Lubricants Private Limited.	105.8	Demurrage Expenses (2.32) +Advertisement and Publicity (0.2) +Salaries and Other Benefits (10.99 + 2.55) +Shared Services Cost (86.9) + Travel (2.33), Software expenses (0.47), miscellaneous
15	Michelin India Private Limited	103.0	professional and consultation fees (3.17) +others (99.8)
16	Cummins India Limited	99.8	Support services (73.56) +others {including IT Service charges, Customer Support Charges, travelling, subscriptions, membership fees, commission on exports, foreign bank charges, etc.} (26.26)

*mentioned in related party foreign trade data
Source: Same as Table 2

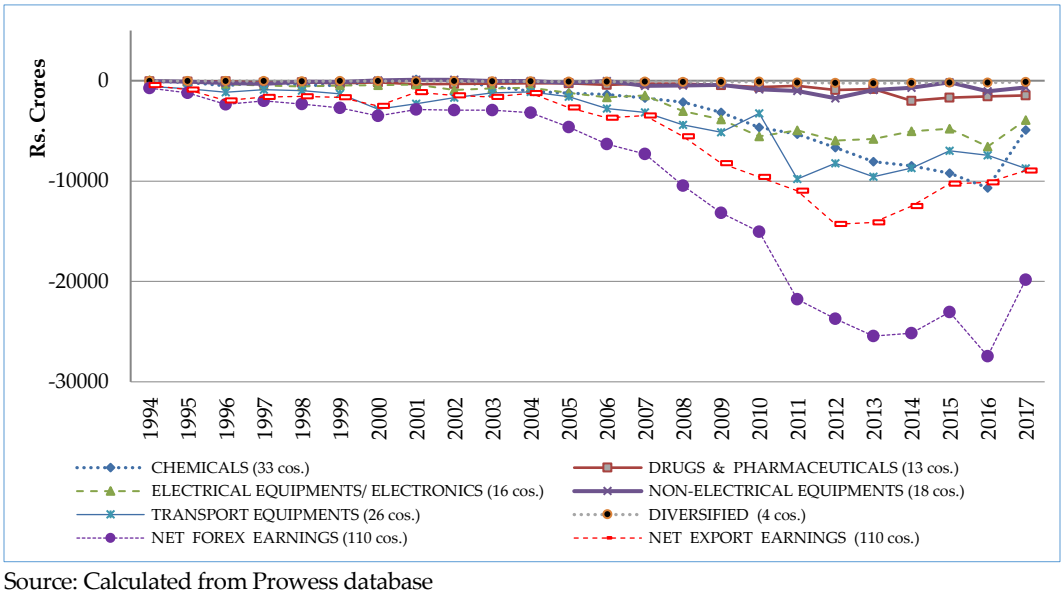
The findings of the firm level study indicate that a majority of manufacturing FDI firms are associated with net foreign exchange losses on both trade account and current account of BOP in some recent years. Many of these firms remain unlisted, and are foreign subsidiaries under majority foreign control. Even after being operational for a decade or more in the economy, an adverse impact on the current or trade account is noted for several of these firms. Negative net contribution of foreign exchange is observed for majority of FDI firms in almost each manufacturing sub-sector. Even while some of these firms are active on export front, their high import tendency considerably offset any positive contribution of foreign exchange in many cases. Apart from imports, high foreign

exchange expenses on a range of technology and services linked payments are observed for various firms. The multiple varieties of services and other foreign transaction routes pose numerous difficulties and complexities in precise identification of these transactions as well as their fair transfer pricing audits.

6. Firm Level Time-Series Analysis: Main Findings

For a time-series analysis, the foreign exchange transactions of a consistent set of 110 foreign affiliated manufacturing firms have been analyzed over 1993-94 to 2016-17 period. The pattern of foreign exchange use for these FDI firms over the study period indicates that predominantly negative net foreign exchange earnings were reported by firms in each of the six sub-sectors as well as for overall manufacturing sector over the post-reform period (Chart 14). The net foreign exchange losses have risen remarkably after 2003-04 for overall manufacturing and for firms belonging to three sub-sectors namely Chemicals, Electrical equipments and Transport Equipments. The overall net foreign exchange losses by sample firms have been near to Rs. 25,000 crore in some recent years. The net export earnings have also been negative and the losses on trade account also rose substantially after 2003-04.

Chart 14: Net Foreign Exchange Earnings of Manufacturing FDI Firms

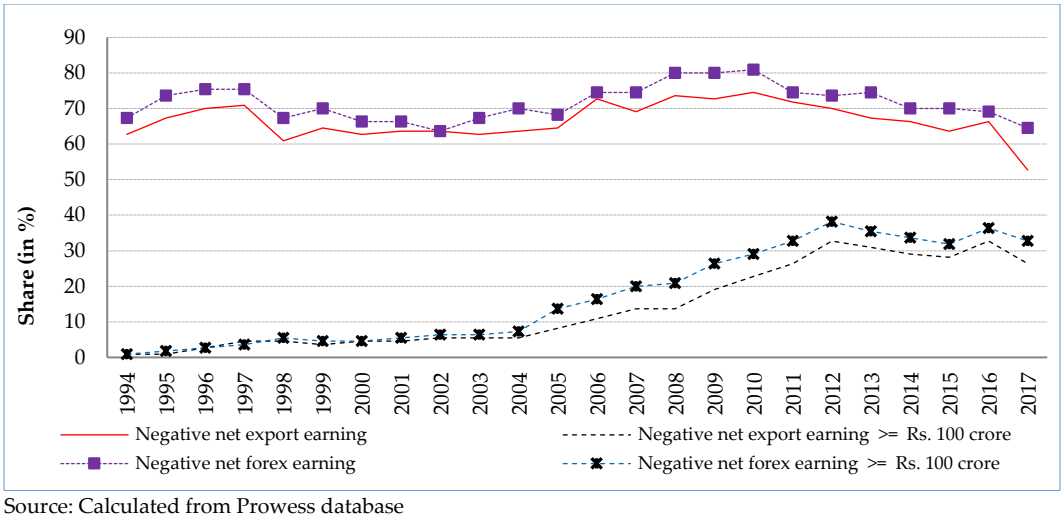


Source: Calculated from Prowess database

At least two-third of the sample FDI firms reported annual net foreign exchange losses over almost the entire study period, where the share of firms was more than 70 per cent in various recent years (Chart 15). Negative net export earnings were reported by more than 60 per cent of sample firms over the same period. Also, the share of sample FDI

firms that reported annual net foreign exchange losses and negative net export earnings of higher than Rs. 100 crore value also rose steadily after 2004.

Chart 15: Share of Sample FDI cos. Reporting Net Foreign Exchange Losses (in %)



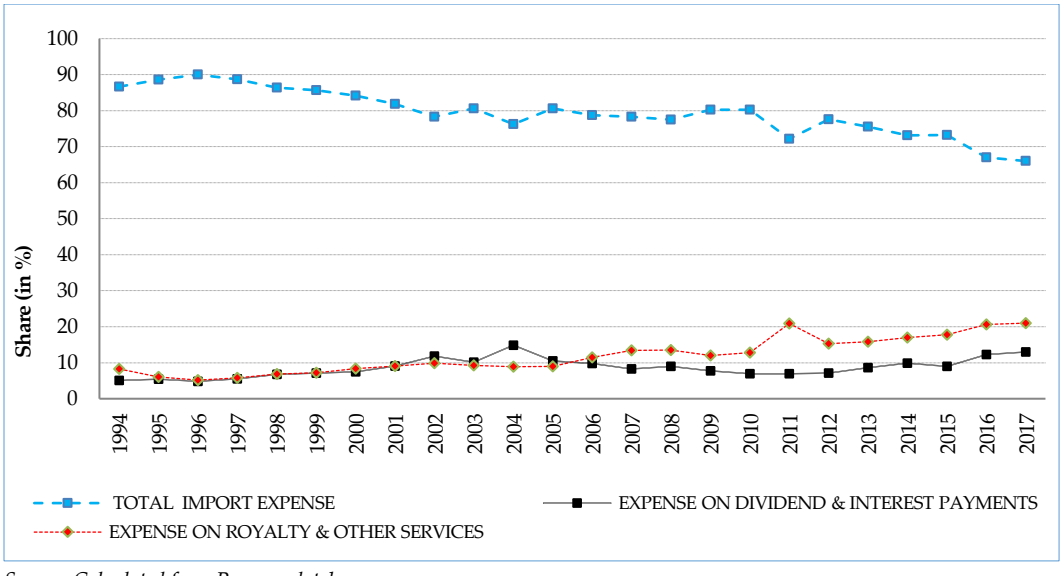
Source: Calculated from Prowess database

The share of total foreign exchange expenses incurred on import of goods (raw materials, stores and spares, finished goods, trading goods & capital goods) by all sample firms has fallen notably over the study period, and a marked increase in share of expenses on royalty, technical knowhow fees and a range of other service payments is observed in recent decade (Chart 16). The royalty and various services payments (like Marketing, consultancy, professional support etc.) involve transfer of intangibles and intra-group payments for which valuation for transfer pricing tax appraisal is particularly difficult. Many of these payments channels are highly susceptible to mispricing for profit shifting[57]. A rise in the share of expenses on these routes can indicate the possibility of an intensification of transfer mispricing practices by various sample FDI firms.

A closer examination of select listed manufacturing FDI firms reveals a substantial rise in the net foreign exchange outflows by each of them over the post-reform years (Chart 17). The foreign exchange loss values have been particularly high after 2005 when various policy changes related to import liberalization and profit repatriation had already been introduced. High net foreign exchange losses are observed for firms with even minority foreign promoter share holding. Hence, the firm level analysis of manufacturing FDI firms also shows a significant net foreign exchange outflow tendency for many of them.

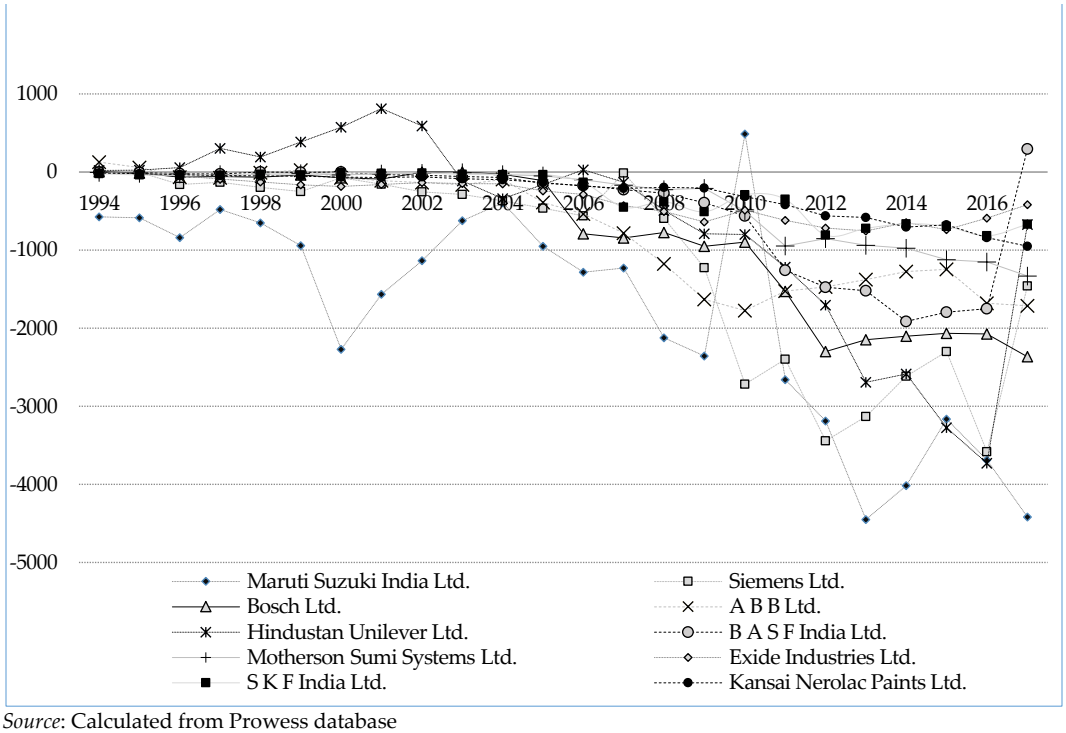
[57] It is to be noted that the technology, knowhow and marketing intangibles (AMP), various head office expenses and management fees have been identified as being 'high risk' base eroding payments under Action 8 and Action 10 by BEPS project of OECD. {Action Plan on Base Erosion and Profit Shifting, pp-14-24, OECD (2013), www.oecd.org.}

Chart 16: Share of Foreign Exchange Expenses on Various Components



Source: Calculated from Prowess database

Chart 17: Listed Companies Reporting High Net Foreign Exchange Losses Over 1994-2017
(Value in Rs. Crores)



Source: Calculated from Prowess database

7. Concluding Observations

The paper examines the foreign exchange use behavior of FDI firms especially in the manufacturing sector of India over the post-reform years and finds important evidence of net foreign exchange losses by many of them at both an aggregate and a firm level. A predominantly net negative impact on the current account and trade account of BOP of India through high import and other foreign exchange expense routes is significantly indicated for majority of them. The net outflow have been particularly high in recent decade when various key policy changes related to trade liberalization and profit repatriation have already been introduced. Such tendency for foreign exchange outflows is noted in the firm level study for majority of firms in nearly each manufacturing sub-sector in some recent years.

In so far as the FDI firms have high domestic market orientation in most of the manufacturing sub-sectors, the limited export earnings do not cover the high import expenses. Such pattern is evident for several FDI firms that have been operational in the economy for a decade or even a longer period. Also, the foreign exchange expenses on a range of technology and services linked payments have been of significant value and have risen noticeably as well for a set of firms for which data was available for a longer period. This pattern possibly reflects a rising risk for intensification of transfer mispricing practices for tax evasion by many MNE linked foreign firms. Also, the multiple varieties of services and other foreign transaction routes pose numerous difficulties in transfer pricing tax appraisal.

It is observed that the FDI sample firms reporting net foreign exchange losses were mainly unlisted ones. As many FDI firms in India remain unlisted and escape financial disclosure norms or public scrutiny of their financial operations, their foreign exchange transactions need a far closer scrutiny. Higher standards of corporate disclosure for these private entities would facilitate better supervision of their financial operations and stringent disclosure requirements need to be implemented in this direction.

However, the current foreign investment and trade policy regime is intensively oriented towards attracting higher levels of FDI in the economy and easing of import controls without sufficient monitoring of foreign exchange use by the FDI firms. This policy approach may not only lead to an overlook of such underlying adverse aspects of FDI by policymakers but also may rather directly facilitate such transaction practices of foreign firms.

It needs to be noted that under the Agreement on Trade-Related Investment Measures (TRIMs) that came into effect in 1995, all members of the World Trade Organization, including India, have agreed to eliminate a set of investment measures that discriminate foreign investment within a stipulated time period. Some of the restrictive measures that are prohibited under current WTO norms are local content requirements, trade balancing requirement, domestic sales requirements, export performance

requirements and foreign exchange restrictions. In such a scenario, there remains limited policy space to implement any direct measure to restrict the inordinate outflow of foreign exchange via cross-border trade operations of foreign invested firms.

However, it is apparent that the current trade and investment policy regime facilitating such significant loss of foreign exchange resources needs an urgent reappraisal. An appropriate alternative policy framework for addressing the drain of foreign exchange resources needs to be devised in view of the much limited scope to check the same via any direct measure under the current WTO commitments.

Most importantly, the role of FDI in the post-reform economy needs to be acutely understood from a policy perspective by keeping in view such underlying adverse aspects of it as well. In so far as FDI is an external liability, it cannot be used as a very sustainable tool to manage current account challenges on which developing economies like India can rely for long. An enhancement of manufacturing growth and export capability of both domestic and foreign firms may indeed be crucial for attaining a sustainable current account situation in future.

8. Appendices

Appendix Table 1: Current Account (Bop) Transactions Covered In Study

Balance of Payments			Transactions in foreign exchange income / expenses covered in study
CURRENT ACCOUNT	TRADE ACCOUNT	***i. Merchandise Trade***	
		1. Exports	**Export of goods**
		2. Imports	**Import of goods***
		ii. Services	
		3. Travel	**Travel**
		4. Transportation	**Port charges, warehouse etc.**
		5. Insurance	**Insurance**
		6. Government *n.i.e.*	**……**
		7. Miscellaneous	**royalty, license fees, financial/ management services , other business services**
		iii. Transfers *(Official, Private)*	**……**
		iv. Income	**Interest, dividend etc.**

**: Includes Raw materials, stores & spares, capital goods, finished goods etc.*
Source : External Sector Statistics, RBI , www.rbi.org.in

Appendix Table 2: Description of Sectoral classification used in study based on ITC-HS codes

SN	*Sectoral Classification Used*	*HScode (2 Digit)*	*Description Of CODES*
1	Vegetable Products, Edible Oils & Foodstuffs	**11**	Products Of The Milling Industry; Malt; Starches; Inulin; Wheat Gluten.
		13	Lac; Gums, Resins And Other Vegetable Saps And Extracts.
		15	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex.
		17	Sugars And Sugar Confectionery.
		18	Cocoa And Cocoa Preparations.
		19	Preparations Of Cereals, Flour, Starch Or Milk; Pastrycooks Products.
		21	Miscellaneous Edible Preparations.
		22	Beverages, Spirits And Vinegar.
		23	Residues And Waste From The Food Industries; Prepared Animal Fodder.
		24	Tobacco And Manufactured Tobacco Substitutes.
2	Pharmaceuticals	**30**	Pharmaceutical Products
3	Chemicals Or Allied Industries (Excluding Pharmaceuticals)	**28**	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radi. Elem. Or Of Isotopes.
		29	Organic Chemicals
		31	Fertilisers.
		32	Tanning Or Dyeing Extracts; Tannins And Their Deri. Dyes, Pigments And Other Colouring Matter; Paints And Ver; Putty And Other Mastics; Inks.
		33	Essential Oils And Resinoids; Perfumery, Cosmetic Or Toilet Preparations.
		34	Soap, Organic Surface-Active Agents, Washing Preprns.,Lubricating Preprns., Artificial Waxes, Prepared Waxes, Polishing/Scouring Prep.
		35	Albuminoidal Substances; Modified Starches; Glues; Enzymes.
		36	Explosives; Pyrotechnic Products; Matches; Pyrophoric Alloys; Certain Combustible Preparations.
		38	Miscellaneous Chemical Products.
4	Rubber & Plastic	**39**	Plastic And Articles Thereof.
		40	Rubber And Articles Thereof.
5	Mineral, Stone & Glass	**25**	Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement.
		27	Mineral Fuels, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes.
		68	Articles Of Stone, Plaster, Cement, Asbestos, Mica Or Similar Materials.
		69	Ceramic Products.
		70	Glass And Glassware.
6	Base Metals & Products	**72**	Iron And Steel
		73	Articles Of Iron Or Steel
		74	Copper And Articles Thereof.
		82	Tools Implements, Cutlery, Spoons And Forks, Of Base Metal; Parts Thereof Of Base Metal.
		83	Miscellaneous Articles Of Base Metal.
7	Machinery & Mechanical Appliances	**84**	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof.

SN	*Sectoral Classification Used*	*HScode (2 Digit)*	*Description Of CODES*
8	Electrical Machinery & Equipments, Electronics	**85**	Electrical Machinery & Equipment, Parts Thereof; Sound Recorders & Reproducers, Television Image & Sound Recorders & Reproducers, Parts.
9	Vehicles & Transport Equipment	**86**	Railway Or Tramway Locomotives, Rolling-Stock & Parts Thereof; Railway Or Tramway Track Fixtures & Fittings & Parts Thereof; Mechanical
		87	Vehicles Other Than Railway Or Tramway Rolling Stock, & Parts & Accessories Thereof.
10	Instruments & Accessories (Optical, Precision, Medical Etc.)	**90**	Optical, Photographic Cinematographic Measuring, Checking Precision, Medical Or Surgical Inst. & Apparatus Parts & Accessories Thereof
		91	Clocks And Watches & Parts Thereof.
		92	Musical Instruments; Parts & Accessories Of Such Articles.
11	Other Manufacturing	**42**	Articles Of Leather,Saddlery And Harness;Travel Goods, Handbags And Similar Cont.Articles Of Animal Gut(Other Than Silk-Wrm)Gut.
		48	Paper And Paperboard; Articles Of Paper Pulp, Of Paper Or Of Paperboard.
		57	Carpets And Other Textile Floor Coverings.
		61	Articles Of Apparel And Clothing Accessories, Knitted Or Corcheted.
		64	Footwear, Gaiters And The Like; Parts Of Such Articles.
		94	Furniture; Bedding, Mattresses, Mattress Supports, Cushions And Similar Stuffed Furnishing; Lamps And Lighting Fittings Not Elsewhere Inc
		96	Miscellaneous Manufactured Articles.
12	Diversified Activity (Manufacturing & Trading/Services)	**99**	Miscellaneous Goods.

Source: Based on ITC-Hs codes classification provided by Directorate General of Foreign Trade, https://www.dgft.gov.in.

Appendix Table 3: Disclosure of Foreign Exchange Transactions in Financial Statements of Companies (XBRL Format Disclosures , MCA), Example Case : Johnson Matthey Chemicals India Private Limited Standalone Financial Statements for period 01/04/2015 to 31/03/2016

Unless otherwise specified, all monetary values are in INR

	01/04/2015 to 31/03/2016	01/04/2014 to 31/03/2015
Additional information on profit and loss account explanatory [TextBlock]	Textual information (67) [See below]	
Changes in inventories of finished goods	42,58,35,552	5,15,02,252
Changes in inventories of work-in-progress	5,57,24,405	-3,58,33,358
Changes in inventories of stock-in-trade	-1,35,76,023	-19,89,438
Changes in other inventories	-39,25,90,026	0
Total changes in inventories of finished goods, work-in-progress and stock-in-trade	7,53,93,908	1,36,79,456
Revenue job work	19,17,21,540	16,43,39,384
Total gross income from services rendered	19,17,21,540	16,43,39,384
Value of imports of raw materials	176,51,86,693	284,41,57,073
Value of imports of components and spare parts	6,02,53,414	9,03,31,960
Value of imports of capital goods	90,85,838	89,67,533
Total value of imports calculated on CIF basis	183,45,25,945	294,34,56,566
Expenditure on royalty	(A) 93,90,104	(B) 21,02,376
Expenditure on professional and consultation fees	(C) 3,86,094	(D) 3,99,240
Expenditure on interest	(E) 18,88,90,989	(F) 20,26,34,712
Expenditure on other matters	(G) 30,41,96,888	(H) 45,82,56,525
Expenditure on dividend paid	0	0
Total expenditure in foreign currency	50,28,64,075	66,33,92,853
Total amount of dividend remitted in foreign currency	0	0
FOB value of manufactured goods exported	(I) 323,99,92,873	(J) 464,45,95,408
Total earnings on export of goods calculated on FOB basis	323,99,92,873	464,45,95,408
Earnings on other income	(K) 10,10,30,009	(L) 8,35,93,109
Total earnings in foreign currency	334,10,22,882	472,81,88,517
Domestic sale manufactured goods	206,39,71,951	180,02,05,832
Domestic sale traded goods	8,04,70,187	97,50,453
Total domestic turnover goods, gross	214,44,42,138	180,99,56,285
Export sale manufactured goods	167,38,05,561	288,71,07,195
Export sale traded goods	4,36,41,534	21,30,06,614
Total export turnover goods, gross	171,74,47,095	310,01,13,809
Total revenue from sale of products	386,18,89,233	491,00,70,094
Domestic revenue services	19,17,21,540	16,43,39,384
Total revenue from sale of services	19,17,21,540	16,43,39,384
Gross value of transaction with related parties as per AS-18	561,55,06,991	0
Bad debts of related parties as per AS-18	0	0

Source: Johnson Matthey Chemicals India Private Limited Standalone Financial Statements for period 01/04/2015 to 31/03/2016

Appendix Table 4: Types of Services income/ Other earnings (50)

Business Process Outsourcing income	Recharge of other costs
Charges for shared services	Recharge of salary costs
Clinical research and data management recoveries	Recoveries from group companies
clinical trials/other support service	Recovery of Costs
commission	recovery of expenses
Contract Revenue	refinery income
Cost Sharing Recoveries	reimbursement against warranty service
Development Tooling Income	Reimbursement of custom duty
Discontinuation Facilitation Income	reimbursement of expense
Export of technical services	reimbursement of marketing/ business promotion
income from product development activities	Reimbursement on account of Employee activities
Income from Services	Reimbursements
income from site development activity	Reimbursements of salary
Indent Commission Income	Research & Development income
Indenting Commission	Revenue from agency arrangements
interest income	Reversal of Technical services including capitalized
IT consultancy	Royalty income
IT Fees	Service Charges recovered from Group Companies
Management fees income	Services sold
Marketing Service Income	services, management contract
marketing support services	software development
miscellaneous income	software exports
other income	Subvention Income
professional consultation fees	Support service cost
R & D services	Tooling services

Source: Based on information from Company Annual Reports downloaded from MCA website

Appendix Table 5: Types of Technology Linked Payments (80)

capital work in progress	IT charge/cost/expense/service/support	Royalty
computer expense	IT networking cost	sample testing charge/fees
computer maintenance	IT enabled services	software expenses
data service	Knowhow	software development services
Data processing & IT outsourcing expenses	lab supplies	Software development & procurement of license
database	license application	software implementation
design & development fees	license fee for use of knowhow	software mobile license
Design & drawing charges	license fee/revenue	Software Purchase
Design & engineering charges	maintenance of equipment	sterilisation
design & service charge	maintenance support cost for license & software	supervision fees
design cost	model fees	Supervision fees for asset installation
development of application technology	module purchases	system maintenance
engine development	mould expense	technical assistance
engineering service	payments for intangible assets	technical services/charges/fees
engineering site	Professional - technical consultancy fees	technical consultancy fee
engineering support charges	professional technical fees	technical guidance fee
erection charges	project expense	technical knowhow
expenditure in foreign currency for research & development	Project Management Costs for Capital Projects	technical support
expense on import of software master copy	quality inspection expense	technician fee
foreign service engineer fee	R & D charges/expenses	technology use fee
foreign technician expense	R & D recovery	testing & calibration expenses
information technology fees	R & D services	testing/trial charge
information technology services	repairs and maintenance	testing agency
intranet	repairs of machinery	Tooling purchases on behalf of customer
IT & communication	Research engineering	training cost/fees
IT & management information systems	research expenses/services	transfers under license agreement from enterprise
IT & support service	rework charge	

Source: Based on information from Company Annual Reports downloaded from MCA website

Appendix Table 6 : Types of Services/Other Payments (150)

administrative support/service fees	Demurrage Expenses	Legal and professional fees	Regional service charges
Advance for Capital goods	Development fees/expense	legal expense/fees	registration fee
advertisement/advertising	Discount, claims and rebates	Legal services	Reimbursement of Expenses
Advertisement & business promotion	employee benefit expenses	License/Registration of Trade Mark Fees	reimbursement of travel
Advertisement and Publicity	employee reimbursement	license fees	related party cross charge
Advertisement and sales promotion	employee related expense	loan repayment	relocation
advertisement fees	employee remuneration	maintenance	Rent
Advertising and marketing	employee scheme	management consultancy	Salaries and other Allowances
Advertising, marketing & promotion (AMP)	employment stock option	management fees	Salaries and other benefits
Advisory services	equipment rental	Management service fee	Salaries and wages
Agency Commission	expatriate cost	management support	SAP charges
assistance charges	expatriate salary	Marketing services	salaries/bonus
Back office support services	Expenditure on contracts at foreign sites	managerial charges	sales application
Bank Charges	expense recharged by other cos.	marketing	Sales commission
bank guarantee	export commission	Marketing Support	Sales promotion
Books and periodicals	finance charges	Membership	Sea Freight and Demurrage
brand fees	finance cost	Network & ERP Expenses	selling expense
brokerage	foreign bank charge	Other support charges	Seminar & Exhibition
Business Development Expenses, Fees, Subscription	Foreign Currency Transactions &Translation	Overseas Branch Office Expenses	service fees commission
Business process outsourcing expense	freight charge	Outside services	service fees/charge
business promotion	freight forwarding	Payment for deputation of employees	services availed/purchased/received
business support	F & A support	packing	shared service
business services	freight reimbursement	Post sales support services	staff cost
commission	freight transport	payment of common shared expenses	staff welfare
Commission and brokerage	group charge	personnel expenses	subcontracting
commission and travelling	group service fee	postage	Subscription Fees
commission on exports	guarantee as borrowing cost	printing stationary	support charge/fees
commission on sales	Guarantee commission	procurement fee	support service
communication charge	guarantee fees	product development	telephone communication

Communication costs	Headquarter & IT charges	product warranty	Trade-mark fees
conference expense	headquarter fees	professional and consultation fees	trademark license
consultancy service fees	hiring of services	Professional charges/fees	travel
container hire cost	HR services	professional consultancy	Travelling and conveyance
Corporate charge	Indenting Commission	Professional Services	Value added fees
Corporate overhead allocations	insurance charge	promotional expense	Warehouse charges
courier	Inter-company Service Charges	purchase of services	warranty
Customer Support Charges	interest	Recruitment expenses	
debt/bank charge	Intra-group services	regional management fee	

Source: Based on information from Company Annual Reports downloaded from MCA website

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