Policies on FDI

7.53 Foreign direct investment (FDI) directly impacts on output growth in India by augmenting the available investible capital. However, a far more important impact of FDI is through externalities leading to higher efficiency and productivity. FDI typically serves to increase competition in markets, bring new technology into India, and foster skill acquisition amongst domestic labour. FDI by international corporations is also central to the process of India being utilised as a platform for global production chains, which would pave the way for strong exports growth.

7.54 Box 7.2 summarises the initiatives taken in 2002-03 in fostering FDI, which constitute a part of the ongoing effort from 1991 onwards at steadily opening access to India for FDI flows. A committee headed by N. K. Singh, Member, Planning Commission, has drafted a set of proposals for further augmenting these flows, which are currently under evaluation.

Box 7.2 : Major initiatives to attract FDI during 2002-03

- FDI upto 100 percent permitted under the automatic route in the advertising sector. FDI under the automatic route upto 100 percent is available for film sector and will not be subject to conditions about debt equity ratio, minimum level of equity investment etc.
- FDI upto 100 percent allowed in tea sector, including tea plantations, permitted subject to compulsory disinvestment of 26 percent equity in favour of Indian partner within a period of five years and prior approval of the state government in case of any future land use change.
- Re-issuance of ADR/GDR permitted to the extent of ADRs/GDRs which have been redeemed into underlying shares and sold in the domestic market.
- FDI upto 100 percent permitted with prior approval of the government for development of integrated township, including housing, commercial premises, hotels, resorts and regional level urban infrastructure facilities such as roads and bridges and mass rapid transit system, subject to the guidelines issued vide press note No. 3 (2002 Series) dated January 4, 2002.
- Automatic route of FDI upto 100 percent allowed in all manufacturing activities in Special Economic Zones, except some of the activities such as arms and ammunitions, explosives and allied items of defence equipment, defence aircrafts and warships, automatic substances, narcotics, distillation and brewing of alcoholic drinks and cigarettes and cigars.
- FDI in print media sector as allowed upto 26 percent of paid-up equity capital of Indian entities publishing periodicals and newspapers dealing with news and current affairs.