Foreign Direct Investment

7.54 Developing countries, emerging economies and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernization and employment generation, and have liberalised their FDI regimes to attract investment. The overall benefits of FDI for developing economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies show that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All these contribute to higher economic growth. Beyond the initial macro-economic stimulus for actual investment, FDI influences growth by increasing total factor productivity and, more generally, the efficiency of resource use in the recipient economy. Technology transfers through FDI generate positive externalities in the host country.

7.55 The benefits from FDI do not accrue automatically and evenly across countries and sectors. In order to reap the maximum benefits from FDI, there is a need to establish a transparent, broad and effective enabling policy environment for investment and to put in place appropriate framework for their implementation. Such an environment must provide incentives for innovations and improvement of skills and contribute towards improved competitiveness.

7.56 Government has put in place a liberal, transparent and investor friendly FDI policy, wherein FDI up to 100 per cent is allowed under automatic route for most of the sectors/ activities, where the investor does not require any prior approval (Box 7.6). Only notification

Box 7.6 : Major initiatives to attract Foreign Direct Investment (FDI)

- In pursuance of Government's commitment to further facilitate Indian industry, Government has permitted access to FDI through automatic route, except for a small negative list. Latest revision to further liberalise the FDI regime are as under:
- Increase in the FDI limits in "Air Transport Services (Domestic Airlines)" up to 49 per cent through automatic route and up to 100 per cent by non-resident Indians (NRIs) through automatic routes. (No direct or indirect equity participation by foreign airlines is allowed).
- Further, reviewing the guidelines pertaining to foreign/technical collaborations under automatic route for foreign financial/technical collaborations with previous ventures/tie- ups in India as per Press Note No. 18 (1998), it has been decided that new proposals for foreign investment/technical collaborations would henceforth be allowed under the automatic route, subject to sectoral policies as per the following guidelines:
  - ☐ Prior approval of the Government would be required only in cases where the foreign investor has an existing joint venture for technology transfer/trade mark agreement in the 'same' field.
  - ☐ Even in the above mentioned cases, the approval of the Government would not be required in respect of the following:
    - i) Investments to be made by venture capital funds registered with SEBI;or
    - ii) Where the existing joint venture investments by either of the parties is less than 3 per cent; or
    - iii) Where the existing venture/collaboration is defunct or sick.
  - ☐ In so far as joint ventures to be entered after the date of Press Note dated January 12, 2005 are concerned, the joint venture agreement may embody a 'conflict of interest' clause to safeguard the interest of joint venture partners in the event of one of the partners desiring to set up another joint venture or a wholly owned subsidiary in the 'same' field of economic activity.
- Foreign investment in the banking sector has been further liberalised by raising FDI limit in private sector banks to 74 per cent under the automatic route including investment by FIIs. The aggregate foreign investment in a private bank from all sources will be a maximum of 74 per cent of the paid up capital of the bank and at all times, at least 26 per cent of the paid up capital held by residents except in regard to a wholly owned subsidiary of a private bank. Further, the foreign banks will be permitted to either have branches or subsidiaries, not both. Foreign banks regulated by a banking supervisory authority in the home country and meeting Reserve Bank's licence criteria will be allowed to hold 100 per cent paid up capital to enable them to set up wholly-owned subsidiary in India.
- FDI ceiling in telecom sector in certain services (such as basic, public mobile radio trunked services (PMRTS), global mobile personal communication service (GMPCS) and other value added services), has been increased from 49 per cent to 74 percent, in February 2005. The total composite foreign holding

Contd.....

including but not limited to investment by FIIs, NRI/OCB, FCCB, ADRs, GDRs, convertible preference shares, proportionate foreign investment in Indian promoters/investment companies including their holding companies etc., will not exceed 74 per cent.

- In January 2004, guidelines on equity cap on FDI, including investment by NRIs and Overseas Corporate Bodies (OCBs) were revised as under:
  - FDI up to 100 per cent is permitted in printing scientific and technical magazines, periodicals and journals subject to compliance with legal framework and with the prior approval of the Government.
  - FDI up to 100 per cent is permitted through automatic route for petroleum product marketing, subject to existing sectoral policy and regulatory framework.
  - FDI up to 100 per cent is permitted through automatic route in oil exploration in both small and medium sized fields subject to and under the policy of the Government on private participation in exploration of oil fields and the discovered fields of national oil companies.
  - FDI up to 100 per cent is permitted through automatic route for petroleum products pipelines subject to and under the Government policy and regulations thereof.
  - FDI up to 100 per cent is permitted for Natural Gas/LNG pipelines with prior Government approval.

to the Reserve Bank of India within 30 days of inward remittance or issue of shares to non-residents is required. Cases requiring prior Government approval are considered by the Foreign Investment Promotion Board (FIPB) in a time-bound and transparent manner. The FDI policy in India is considered as one of the most liberal, with very few barriers. The Global Competitiveness Report 2003-04 by the World Economic Forum ranks India at 41st place on barriers to foreign ownership, against 67th for Malaysia, 75th for Thailand and 81st for China.

7.57 Investors are showing their growing confidence in the immediate and medium term prospects of the Indian economy. A recent confidence survey by global consultancy AT Kearney rated India as the third most favoured FDI destination, next only to China and United States. Moreover, for the first time, manufacturing investors surveyed by AT Kearney considered India as a superior manufacturing location than even the US.

7.58 According to the World Investment Report, 2004 of United Nations Conference on Trade and Development (UNCTAD), Global FDI Inflows have declined significantly from the peak of US$ 1.4 trillion in 2000 to US$ 560 billion in 2003. FDI inflow to India, on the contrary, has shown a rise, particularly in 2003, to reach US$ 4.27 billion (Table 7.16).

Table 7.16 : Foreign direct investment in selected asian developing countries

(billions of US$)

Country	Foreign Direct Investment Inflows 2001	2002	2003
China	46.88	52.74	53.51
	(5.7)	(7.8)	(9.6)
Hong Kong	23.78	9.68	13.56
	(2.9)	(1.4)	(2.4)
India	3.40	3.45	4.27
	(0.4)	(0.5)	(0.8)
Indonesia	-2.98	0.15	-0.60
	-(0.4)	(0.0)	-(0.1)
Korea	3.68	2.94	3.75
	(0.5)	(0.4)	(0.7)
Malaysia	0.55	3.20	2.47
	(0.1)	(0.5)	(0.4)
Philippines	0.98	1.79	0.32
	(0.1)	(0.3)	(0.1)
Singapore	15.04	5.73	11.41
	(1.8)	(0.8)	(2.0)
Sri lanka	0.08	0.20	0.23
	(0.0)	(0.0)	(0.0)
Thailand	3.81	1.07	1.80
	(0.5)	(0.2)	(0.3)
Developing economies	219.72	157.61	172.03
	(26.9)	(23.2)	(30.7)
World	817.57	678.75	559.58

Source : World Investment Report 2004, UNCTAD

Note : Figures in bracket are percent share to world total.

7.59 FDI inflows have increased in the first eight months of the current year reaching US$ 2.5 billion, which is more than double, compared to the corresponding period last year and is very near to the total FDI inflows in 2003-04 (Table 7.17). Sector-wise FDI inflows from August 1991 until November, 2004, indicates that the highest shares of FDI inflows have gone to the data-processing software and consultancy services, followed by pharmaceuticals and automobile industry (Table 7.18).

7.60 Country-wise, FDI inflows to India (Table 7.19) are dominated by Mauritius (34.49 percent), followed by the United States (17.08 percent) and Japan (7.33 percent).

7.61 Five States/Union Territory – Maharashtra, Delhi, Tamil Nadu, Karnataka, and Gujarat – which were the top recipients of FDI approvals, secured more than 48 per cent of such approvals in the country (Table 7.20).

Table 7.17 : Foreign direct investment approval and inflows

Sl. No.	Financial Year	Amount in rupees in crore		Amount in US$ in million	
		Approvals	Inflows	Approvals	Inflows
1	1991-1992 #	1,345	408	527	165
2	1992-1993	5,546	1,094	1,976	393
3	1993-1994	7,469	2,018	2,428	654
4	1994-1995	9,971	4,312	3,178	1,374
5	1995-1996	36,608	6,916	11,439	2,141
6	1996-1997	40,206	9,654	11,484	2,770
7	1997-1998	40,033	13,548	10,984	3,682
8	1998-1999	30,324	12,343	7,532	3,083
9	1999-2000	17,976	10,311	4,266	2,439
10	2000-2001	25,207	12,645	5,754	2,908
11	2001-2002	14,465	19,361	3,160	4,222
12	2002-2003	7,904	14,932	1,654	3,134
13	2003-2004	6,224	12,117	1,353	2,776
14	2004-2005 *	6,784	11,726	1,475	2,549
	Total	**250,062**	**131,385**	**67,210**	**32,290**

Notes: 1. # Aug.-March; * Up to November 2004

2. As most of the sectors /activities have been placed under automatic route in recent years, which do not require any approval, the FDI approvals statistics are not a true reflection of the FDI approved.

Table 7.18 : Sector-wise FDI approvals and inflows

(Cumulative from August 1991 to November 2004)

Amount rupees in crore (US $ in million)

Rank	Sector	No. of approvals	Amount approved	percentage approved Amount in rupee terms	Amount Inflows	Percentage of total Inflows in rupees terms*
1.	Fuels					
	➢ Power	371	43,687 (11,888)	17.47	-	-
	➢ Oil Refinery	338	26,079 (7,185)	10.43		
	TOTAL (power + oil refinery)	709	69,766 (19,073)	27.90	10,433 (2,459)	9.78
2.	Telecommunications (radio paging, cellular mobile, basic telephone services)	805	41,371 (11,441)	16.54	11,231 (2,674)	10.53
3.	Transportation industry	1,105	21,110 (5,427)	8.44	12,123 (2,909)	11.36
4.	Electrical equipments (including computer software & electronics)	4,746	18,947 (4,888)	7.58	16,093 (3,793)	15.09
5.	Metallurgical industries	428	15,412 (4,212)	6.16	2,043 (481)	1.92
6.	Services sector (financial, non-financial & others)	1,332	16,917 (4,417)	6.77	8,752 (2,174)	8.20
7.	Chemicals (other than fertilizers)	1,074	12,618 (3,492)	5.05	6,405 (1,653)	6.00
8.	Food-processing industries	784	9,562 (2,746)	3.82	4,481 (1,128)	4.20
9.	Hotel and tourism	537	4,909 (1,353)	1.96	981 (232)	0.92
10.	Paper and pulp (including paper products)	137	3,116 (832)	1.25	1,282 (336)	1.20
11.	Other sectors (total of remaining sector excluding above)	7,078	36,334 (9,330)	14.53	57,561 (14,451)	30.80
	Total for all sectors (August 1991 to November 2004)	**19,444**	**2,50,062 (67,211)**	**100.00**	**1,31,385 (32,290)**	**100.00**

Note: 1. As most sectors/activities have been placed under automatic route in recent years, which do not require any approval, the FDI approval statistics are not a true reflection of the FDI approved.

2.* Percentage figures do not take into account the amount of FDI Inflows for RBI's-NRI Schemes, acquisition of existing shares (upto 1999), stock swapped & advance pending for allotment of shares, as these are not categorized, Sector-wise.

Table 7.19 : Share of top investing countries in FDI inflows

(from August 1991 to November 2004)

Amount in rupees crore (millions of US$)

Rank	Country	August 1991 to March 2000	2000-01	2001-02	2002-03	2003-04	2004-05 (up to Nov.)	Total inflows	percent-age of total inflows
1	Mauritius	13,272	4,111	10,063	3,766	2,609	3,730	37,551	34.49
		(3,608)	(942)	(2,182)	(788)	(567)	(811)	(8,898)	
2	USA	8,956	1,544	1,748	1,504	1,658	2,401	17,811	17.08
		(2.450)	(356)	(382)	(319)	(360)	(522)	(4,389)	
3	Japan	3,314	977	809	1,971	360	466	7,897	7.33
		(898)	(224)	(178)	(412)	(78)	(101)	(1,891)	
4	Netherlands	2,260	706	890	836	2,247	906	7,845	7.16
		(628)	(162)	(196)	(176)	(489)	(197)	(1,847)	
5	UK	2,286	303	1,673	1,617	769	361	7,009	6.56
		(670)	(70)	(366)	(340)	(167)	(78)	(1,692)	
6	Germany	2,396	540	519	684	373	553	5,066	4.86
		(672)	(123)	(113)	(144)	(81)	(120)	(1,254)	
7	France	1,002	455	499	534	176	165	2,822	2.63
		(280)	(104)	(108)	(112)	(38)	(36)	(679)	
8	South Korea	2,094	90	5	188	110	115	2,601	2.64
		(572)	(21)	(1)	(39)	(24)	(25)	(682)	
9	Singapore	1.244	502	251	180	172	225	2,573	2.48
		(344)	(117)	(54)	(38)	(37)	(49)	(639)	
10	Switzerland	948	71	180	437	207	287	2,130	2.04
		(269)	(16)	(40)	(93)	(45)	(62)	(525)	
TOTAL FDI INFLOWS *		60,604	12,645	19,361	14,932	12,117	11,726	1,31,385	-
		(16,701)	(2,908)	(4,222)	(3,134)	(2,634)	(2,549)	(32,290)	

Source : SIA, FDI Data Cell, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.
Note : * Includes inflows under NRI Schemes of RBI, stock swapped and advances pending issue of shares.

Table 7.20 : State-wise FDI approvals

(from August 1991 to November 2004)

Rank	State	Approvals: Total	Approvals: Tech.	Approvals: Financial	Amount of FDI approved: Rupees in crore	Amount of FDI approved: US$ in million	percentage of total FDI approved
1	Maharashtra	5,037	1,318	3,719	37,020	9,621	14.80
2	Delhi	2,810	307	2,503	30,519	8,445	12.20
3	Tamil Nadu	2,681	618	2,063	22,642	5,894	9.05
4	Karnataka	2,639	502	2,137	19,075	4,833	7.63
5	Gujarat	1,236	568	668	12,437	3,273	4.97

Note : RBI provides regional office wise information based on the intimation of investment received from investors under the automatic route. Consequently, the above table may not necessarily indicate state-wise investment intentions of investors.