

Foreign Direct Investment

7.12 The government took several steps in the current year in the area of foreign direct investment (FDI) in further pursuit of its already committed path of policy transparency and liberalization in FDI. FDI up to 100 per cent is now permitted on the automatic route in all sectors/activities except: (a) activities requiring industrial license under the Industries (Development and Regulation Act), (b) proposals where the foreign investor had an existing joint venture/technical collaboration/trademark agreement in the same field of activity, (c) proposals for acquisition of shares in an Indian company in the financial services sector and where SEBI (Substantial Acquisition Of Shares and Takeovers) Regulations, 1997 is attracted and (d) all proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted. Some of the specific measures, which have been taken are as follows:

- FDI cap in the domestic airlines sector has been enhanced from 40 per cent to 49 per cent and NRI investment is permitted up to 100 per cent with no direct or indirect equity participation by the foreign airlines.
- FDI up to 100 per cent under the automatic route is now permitted for development of township, housing, built-

up infrastructure and construction development projects. The minimum area requirement has been reduced to 10 hectares for serviced housing plots and 50,000 square meters built up area for construction-development projects.

- FDI cap has been increased from 49 per cent to 74 per cent in basic and cellular telecom services. The revised cap includes both FDI and portfolio investment.
- FDI has been permitted in FM Radio Broadcasting up to a maximum of 20 per cent (which is inclusive of FDI, NRI, PIO and FII)
- Guidelines for approval of foreign/technical collaborations for projects with existing joint venture/collaboration in the same field have been reviewed

7.13 As a measure towards simplification of the existing procedures in FDI, the following activities have been placed on the general permission route of RBI:

- Transfer of shares in an existing Indian company from residents to non-residents and vice-versa (except in the financial sector and where SEBI takeover code is attracted);
- Conversion of ECB/loan into equity, provided the activity is covered under the

automatic route and the foreign equity after such conversion falls within the sectoral cap;

- Conversion of preference shares into equity provided the increase in foreign equity participation is within the sectoral cap and the activity is under the automatic route; and
- Conversion of non-repatriable equity invested by NRIs in foreign exchange into repatriable equity allowed under the automatic route provided the original investment was made in foreign exchange under the FDI scheme notified under the FEMA regulations and the sector/activity is which the investment is proposed to be converted into repatriable equity is on the automatic route for FDI.

7.14 Procedural simplifications and inclusion of more sectors under the automatic route coupled with a change in the global scenario and a strong increase in FDI in developing countries in 2004 led to an increase in FDI inflows into India. FDI inflows increased by 25.0 per cent in 2004 and a further 33.8 per cent in 2005. India's share in global FDI increased from 0.5 per cent in 2002 to 0.8 per cent in 2004. Nevertheless, FDI inflows into

India continue to lag far behind such inflows in some of the developing countries of Asia (Table 7.8).

7.15 As per the latest available figures, the cumulative amount of FDI approvals accorded till November 2005 was Rs.257,952 crore (US\$69,001 million). During the current year up to November 2005, FDI to the tune of Rs. 5,947 crore (US\$ 1,351 million) has been approved. In terms of cumulative inflows and its geographic origin, Mauritius topped the list by accounting for 37.2 per cent of the total inflows. USA was second with a share of 15.92 per cent. The sectoral composition of FDI indicated that electrical equipment was the largest recipient of the FDI inflows (Table 7.9). Over 70 per cent of the FDI was accessed by 10 sectors.

7.16 In terms of the destination of FDI flows Delhi; parts of Uttar Pradesh and Haryana; Maharashtra; Dadra & Nagar Haveli; and Daman & Diu accounted for almost 50 per cent of the total inflows (Table 7.10). In terms of FDI approvals, however, Maharashtra topped the list, followed by Delhi, Tamil Nadu, Karnataka and Gujarat. A concerted strategy at the Central and State level needs to be evolved to ensure a more equitable regional distribution of such flows.

Table 7.8 : Foreign direct investment in some Asian developing countries

Country	Foreign Direct Investment Inflows (billions of US \$)			Share in World FDI Inflows		
	2002	2003	2004	2002	2003	2004
China	52.74	53.51	60.63	7.36	8.46	9.35
Hong Kong	9.68	13.62	34.04	1.35	2.15	5.25
India	3.45	4.27	5.34	0.48	0.67	0.82
Indonesia	0.15	-0.6	1.02	0.02	-0.09	0.16
Korea	2.98	3.79	7.69	0.42	0.60	1.19
Malaysia	3.2	2.47	4.62	0.45	0.39	0.71
Philippines	1.79	0.34	0.47	0.25	0.05	0.07
Singapore	5.82	9.33	16.06	0.81	1.47	2.48
Sri Lanka	0.2	0.23	0.23	0.03	0.04	0.04
Thailand	0.95	1.95	1.06	0.13	0.31	0.16
Developing economies	155.53	166.34	233.23	21.72	26.29	35.98
World	716.13	632.6	648.15	100.00	100.00	100.00

Source : World Investment Report 2005, UNCTAD

Table 7.9 : Sectors attracting highest FDI inflows*(Amount in Rupees crore and in US\$ in million in parentheses)*

Ranks	Sector	2002-03	2003-04	2004-05	2005-06 (April – Nov)	Cumulative inflows FDI (from Aug 1991 to Sep 2005)	Share of inflows (in per cent)
1	Electrical Equipments (including computer software and electronics)	3,075(644)	2,449(532)	3,281(721)	3,687(223)	20,898(4862)	16.62
2	Transportation Industry	2,173(455)	1,417(308)	815(179)	741(168)	13,073(3,124)	10.39
3	Services Sector (financial and non financial)	1,551(326)	1,235(269)	2,106(469)	1,742(398)	11,981(2908)	9.53
4	Telecommunications (radio paging, cellular mobile, basic telephone services)	1058(223)	532(116)	588(129)	763(156)	12,076(2,863)	9.60
5	Fuels (Power +Oil refinery)	551(118)	521(113)	759(166)	81(19)	10,678(2,514)	8.49
6	Chemicals (other than fertilizers)	611(129)	94(20)	909(198)	843(191)	7,444(1,887)	5.92
7	Food Processing Industries	177(37)	511(111)	174(38)	158(36)	4,677(1,173)	3.72
8	Drugs and Pharmaceuticals	192(40)	502(109)	1,343(292)	4,85(111)	4,047(946)	3.21
9	Cement and Gypsum Products	101(21)	44(10)	1(0)	1,967(452)	3,229(746)	2.57
10	Metallurgical Industries	222(47)	146(32)	881(192)	544(122)	2,679(624)	2.13

Source : FDI Data Cell, Ministry of Commerce

Table 7.10 : Region-wise/State-wise break- up of FDI inflows

Rank	RBI's Regional Office	State covered	Amount of FDI Inflows		Share of FDI inflows in rupees (in per cent)
			Rupees in crore	US\$ in million	
1	New Delhi	Delhi, Part of UP and Haryana	21,839.84	4,840.2	25.96
2	Mumbai	Maharashtra, Dadra and Nagar Haveli, Daman and Diu	17,815.62	3,921.1	21.18
3	Bangalore	Karnataka	6,416.03	1,418.5	7.63
4	Chennai	Tamil Nadu and Pondicherry	5,089.62	1,116.7	6.05
5	Ahmedabad	Gujarat	2,793.23	611.5	3.32

Source : FDI Data Cell, Ministry of Commerce