Foreign Direct Investment

7.50 The inflow of Foreign Direct Investment (FDI) has registered robust growth in the current financial year. As per the latest report of UNCTAD, India surpassed South Korea to become the fourth largest recipient of FDI in the region. During April-September 2006, total FDI inflows (excluding 'reinvested earnings' and 'other capital components') were Rs.20,155 crore (US$4.38 billion). Cumulative FDI inflows since August 1991 up to Septmeber 2006 were Rs.1,81,566 crore (US$43.29 billion). Among sectors attracting high cumulative FDIs (Table 7.15), electrical equipments retained the first spot, followed by sevices and telecommunications. Services and telecommunications dislodged transportation industry to the fourth spot from the second spot held by it last year.

Table 7.15 : Sectors attracting highest FDI inflows

(Amount in Rupees crore and in US$ in million in parentheses)

Ranks	Sector	2003-04	2004-05	2005-06	2006-07 (April – Sep)	Cumulative inflows (from Aug 1991 to Sep 2006)	Share of FDI inflows (in per cent)
1	Electrical Equipment s (including computer software and electronics)	2,449(532)	3,281(721)	6,499(1451)	3,601(778)	27,311(6,272)	17.54
2	Services Sector (financial & non-financial)	1,235(269)	2,106(469)	2,565(581)	6,955(1,509)	19,759(4,600)	12.69
3	Telecommunications (radio paging, cellular mobile, basic telephone services)	532(116)	588(129)	3,023(680)	3,835(405)	16,172(3,776)	10.39
4	Transportation Industry	1,417(308)	815(179)	983(222)	1,187(259)	14,502(3,436)	9.31
5	Fuels (Power +Oil refinery)	521(113)	759(166)	416(94)	632(138)	11,608(2,720)	7.45
6	Chemicals (other than fertilizers)	94(20)	909(198)	1979(447)	439(95)	9,019(2,238)	5.79
7	Food Processing Industries	511(111)	174(38)	183(42)	150(33)	4,852(1,212)	3.12
8	Drugs and Pharmaceuticals	502(109)	1,343(292)	760(172)	219(48)	4,531(1,055)	2.91
9	Metallurgical Industries	146(32)	881(192)	681(153)	511(111)	3,328(766)	2.14
10	Cement and Gypsum Products	44(10)	1(0)	1,970(452)	96(21)	3,327(768)	2.14

Source : FDI Data Cell, Ministry of Commerce

7.51 As destinations of FDI inflows (Table 7.16), the first four spots continued to be New Delhi, Mumbai, Bangalore and Chennai, while Hyderabad overtook Ahmedabad to occupy the fifth place by September, 2006.

Table 7.16 : Region-wise/State-wise Break- up of Cumulative FDI Inflows until September 2006

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	27,369.16	6,053.2	24.00
2	Mumbai	Maharashtra, Dadra and Nagar Haveli, Daman and Diu	24,545.44	5,399.1	21.52
3	Bangalore	Karnataka	7,809.7	1,727.5	6.85
4	Chennai	Tamil Nadu and Pondicherry	7,413.15	1,630.6.7	6.50
5	Hyderabad	Andhra Pradesh	4,412.80	970.6	3.87

Source : FDI Data Cell, Ministry of Commerce

7.52 With increased liberalisation, equity caps on FDI existed only in limit sectors. These are a FM radio broadcasting (upto 20 per cent); insurance, defence production, petroleum refining in the PSUs, print and electronic media covering news and current affairs (upto 26 per cent); air transport services, asset reconstruction companies, cable network, direct to home (DTH), hardware for uplinking, HUB, etc. (upto 49 per cent); single brand retailing (upto 51 per cent); atomic minerals, private sector banking, telecom services, establishment and operation of satellites (upto 74 per cent). FDI is prohibited in retail trading (except for single brand product retailing), gambilng and betting, lottery and atomic energy. Approval for proposals for induction of equity of more than 24 per cent for manufacture of items that are reserved for small-scale sector and the proposals where the foreign investor has an existing joint venture/technical collaboration/ trademark agreemtn in the same field of activity and attract the provisions of Press Note (2005 Series) are not under automatic route.

7.53 A comprehensive review of the FDI policy was undertaken during the current year vide Press Note 4 dated February 10, 2006, to consolidate the liberalization already effected and further rationalize the FDI policy governing various activities. The major policy intiatives taken are:

- **Change of route:** FDI has been allowed up to 100 per cent under the automatic route for distillation and brewing of potable alcohol, manufacture of industrial explosives, manufacture of hazardous chemicals, manufacturing activities located within 25 kms of the Standard Urban Area limits requiring industrial license under the IDR(Act) 1951, setting up of greenfield airport projects, laying of natural gas/LNG pipelines, market study and formulation and investment financing in the petroleum sector, and cash and carry wholesale trading and export trading.
- **Increase in equity caps:** FDI caps have been increased to 100 per cent and automatic route extended to coal and lignite mining for captive consumption, setting up of infrastructure relating to marketing in petroleum and natural gas sector and exploration and mining of diamonds and precious stones.
- **FDI in new activites:** FDI has been allowed up to 100 per cent on the automatic route in power trading and processing and warehousing of coffee and rubber. FDI has also been allowed up to 51 per cent for 'single brand' product retailing which requires prior approval of Government. Specific guidelines have been issued for governing FDI for 'single brand' product retailing.
- **Removal of restrictive conditions:** Mandatory divestment conditions for Business to Business e-commerce has been dispensed with.
- **Procedural simplification:** The transfer of shares from resident to non-resident including acquisition of shares in an existing company has been placed on the automatic route subject to sectoral policy on FDI.

7.54 In order to boost production of cash crops through infusion of foreign funds and technical know how, vide Press Note 4 of February 10, 2006, Agriculture & plantations was removed from the list of prohibited sectors for FDI, and the activities permitted within these sectors were included in the sector-specific policy. As per the present policy, FDI up to 100 per cent is permitted under the automatic route in floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aqua-culture and cultivation of vegetables & mushrooms under controlled condtions, and services related to agro and allied sectors. FDI up to 100 per cent with prior Government approval is permitted in tea plantation subject to the conditions of divestment of 26 per cent equity of the company in favour of an Indian partner/Indian public within a period of five years and prior approval of the State Government concerned in case of any future land use change. Besides the above two, FDI is not allowed in any other agricultural sector/activity.