

# FDI POLICY IN INDIA





# EVOLUTION OF FDI POLICY

- ❑ Economic reforms embarked upon by the Government of India since mid-1991
- ❑ FDI policy liberalized progressively, through:
  - ❑ ongoing review
  - ❑ permitting FDI in more industries under the automatic route
- ❑ Negative list notified in 2000
  - ❑ FDI, up to 100%, on the automatic route, permitted for most activities
- ❑ Since then:
  - ❑ FDI policy gradually simplified/rationalized
  - ❑ more sectors opened up for foreign investment
- ❑ For India to maintain its momentum of GDP growth, it is **vital to ensure that the robustness of its FDI inflows is also maintained.**



# GROWTH IN FDI

- FDI equity inflows into India:
  - Thirteen-fold growth between 2003-04 and 2009-10
- FDI inflows into India:
  - In terms of international practices of calculating FDI (i.e. by taking into account re-invested earnings and other capital), FDI inflows were nearly US \$ 37.18 billion during 2009-10
- Stable pace of inflows:
  - FDI inflows have somewhat flattened out over the course of the last three years
  - However, the pace of inflows has been stable
  - This is including during 2009-10, at the height of the global economic slowdown
- This is despite a **significant fall in global FDI inflows**



# INDIA AS AN INVESTMENT DESTINATION

- ❑ India rated as one of the most attractive investment destinations across the globe.
- ❑ Second most attractive location for FDI for 2010-2012:
  - ❑ UNCTAD World Investment Report (WIR), 2010
- ❑ Second most promising country for overseas business operations:
  - ❑ 2009 survey of the Japan Bank for International Cooperation



# INDIA'S GLOBAL POSITION\*

## FDI Inflows:

- ❑ Global rank :
  - ❑ 32<sup>nd</sup> in 2001
  - ❑ 9<sup>th</sup> in 2009
  
- ❑ Rank among developing countries:
  - ❑ 13<sup>th</sup> in 2005
  - ❑ 4<sup>th</sup> in 2009
  
- ❑ India's share of world FDI inflows:
  - ❑ 0.78% in 2005
  - ❑ 3.11% in 2009

\* - UNCTAD data



# RECENT CHANGES IN FDI POLICY

- Significant changes made in the FDI policy regime in recent times to ensure that India remains increasingly attractive and investor-friendly
- Some important changes:
  - Press Notes 2 & 4 of 2009:
    - new paradigm in FDI policy
    - twin concepts of 'ownership' and 'control' recognized as a central principle in India's FDI regime, for calculation of direct and indirect foreign investment
    - ensured application of simple, homogenous and uniform norms for calculation of indirect foreign investment



# RECENT CHANGES IN FDI POLICY

- Press Notes 2 & 4 of 2009 (contd):
  - clarified the need for obtaining government/FIPB approval (or otherwise) for foreign investment into Indian companies and for such Indian companies in the eventuality of their making downstream investments
- Press Note 6 of 2009:
  - Liberalized the induction of FDI in Micro and Small Enterprises
- Press Note 8 of 2009:
  - All payments for royalty, lumpsum fee for transfer of technology and use of trademarks/ brand names, brought under the automatic route, without the need for Government approval



# RECENT CHANGES IN FDI POLICY

- Press Note 1 of 2010:
  - Recommendations of FIPB on proposals with total foreign equity inflow of more than Rs. 1200 crore only to be now placed for consideration of CCEA, as against the earlier limit of cases with a total investment of Rs. 600 crore
  - A number of other categories of cases also exempted from the requirement of obtaining prior approval of Government
- Other than liberalization of the policy, simplification and rationalization of the FDI policy has also been an important component of the reforms



# CONSOLIDATION OF FDI POLICY

- ❏ Circular 1 of 2010:
  - ❏ Major exercise undertaken on consolidation of all existing regulations on FDI, into one consolidated document, so as to reflect the current regulatory framework
  - ❏ All information on FDI policy now available at one place
  - ❏ Expected to lead to simplification of the policy, greater clarity and understanding of foreign investment rules among foreign investors and sectoral regulators
  - ❏ Document to be updated every six months
- ❏ Circular 2 of 2010:
  - ❏ Updated version released on 30 September, incorporating a number of significant changes and clarifications



# STAKEHOLDER CONSULTATIONS ON FDI POLICY

- ❑ Initiation of stakeholder consultations, by inviting suggestions on various aspects of FDI policy, including sectoral policies
- ❑ Discussion papers released for stakeholder comments:
  - ❑ FDI in retail sector
  - ❑ FDI in defence sector
  - ❑ Approval of foreign/ technical collaborations in case of existing ventures/ tie-ups in India
  - ❑ Issue of shares for considerations other than cash
  - ❑ FDI in Limited Liability Partnerships (LLPs)



# STREAMLINING THE BUSINESS ENVIRONMENT

- ❑ Concerted efforts, in partnership with various State Government and Business Associations, to make regulations conducive for business including:
  - ❑ establishment of online single-windows
  - ❑ adoption of nation and international best practices
  - ❑ simplification of tax-regime etc.
- ❑ Initiation of implementation of the e-Biz Project:
  - ❑ a Mission Mode Project
  - ❑ under the National e-Governance Project
  - ❑ to provide online registration and filing payment services
  - ❑ for investors and business houses



# STREAMLINING THE BUSINESS ENVIRONMENT

- ❑ Setting up of 'Invest India':
  - ❑ a not-for-profit, joint-venture company
  - ❑ between the DIPP and FICCI
  - ❑ single window facilitator
  - ❑ for prospective overseas investors
  - ❑ to act as a structured mechanism for attracting investment