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CONTENT: UNIT V (FOREIGN TRADE PROMOTION MEASURES AND ORGANIZATIONS IN INDIA)

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- Foreign Trade Promotion Organizations in India
- Special Economic Zone
- Export Oriented Units (EOUs)
- Comparison of EOU and SEZ Scheme
- Foreign Investment in India
- Joint Venture
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FOREIGN TRADE PROMOTION ORGANIZATIONS IN INDIA

- **Department of Commerce**
- Primary governmental agency responsible for developing and directing foreign trade policy and programmes, including commercial relations with other countries, state trading, various trade promotional measures and development, and regulation of certain export-oriented industries.
- The principal functional divisions engaged in export promotion activities are as follows:

Economic Division

- Engaged in export planning, formulating export strategies, periodic appraisal and review of policies
- Maintains coordination with and control over other divisions and various organizations set up by ministry of Commerce to facilitate export growth.

- Monitors work relating to technical assistance, management services for exports and overseas investment by Indian entrepreneurs.

Trade Policy Division

- Keeps track of development in international organization.
- Responsible for India's relationship with regional trading agreement
- Looks after GSP and non-tariff barriers

Foreign Trade Territorial Division

- Looks after development of trade with different countries and regions of the world.
- Deals with state trading and barter trade, organization of trade fairs and exhibitions, commercial publicity abroad
- Maintains contact with trade missions abroad and carries out related administrative work.

Export Product Division

- Looks after problems connected with production, generation of surplus and development of products for exports.
- Responsible for the working of export organizations and corporations, which deal with commodities and products under their jurisdiction.

Export Industries Division

- Responsible for development and regulation of rubber, tobacco, and cardamom.
- Responsible for handling export promotion activities relating to textiles, woolens, handlooms, readymade garments, silk and cellulosic fibers, jute and jute products, handicrafts and coir and coir products

Export Services Division

- Deals with problems of export assistance such as export credit, export house, market development assistance, transport subsidies, free trade zones, dry ports, quality control and pre-shipment inspection, assistance to import capital goods etc

- **Subordinate offices**

- In addition to these divisions, attached and subordinate offices are also involved in promotion of foreign trade. These are as follows:

Directorate General of Foreign Trade

- Headed by Director General of Foreign trade.
- Responsible for execution of export-import policy announced by GOI.
- Looks after the work relating to issuing of licenses and monitoring of export obligations.

- **Directorate General of Commercial Intelligence and Statistics**
  - Responsible for collection, compilation and dissemination of trade statistics and commercial information.
  - Brings out a number of publications mainly on inland and coastal trade statistics, revenue statistics, shipping and air cargo statistics.
- **Directorate General of Anti-Dumping and Allied Duties**
  - Responsible for carrying out anti-dumping investigations and to recommend wherever required, the amount of anti-dumping /countervailing duty under the Customs Tariff Act, on identified articles which would be adequate to remove injury to the domestic industry

Board of Trade

- In order to deploy an effective mechanism for maintaining continuous dialogue with trade and industry on issues related to international trade, the Board of Trade was set up under the chairmanship of the Union Minister of Commerce and Industry in May 1989. It was reconstituted on 1st April 2005 with an eminent representative from trade and industry as its chairperson. The broad terms of reference of the Board of Trade are given below:
- To advise the govt. on policy measures for preparation and implementation of both short and long-term plans for increasing exports.
- To review the export performance of various sectors, identify constraints and suggest industry specific measures to optimize exports earnings.
- To examine the existing institutional framework for exports and suggest practical measures for further streamlining to achieve the desired objectives.

- To review the policy instrument, package of incentives and procedures for exports and suggest steps to rationalize and channelize such schemes for optimal use.
- To commence studies for promoting trade
- Ensures a continuous dialogue with trade and industry in order to advise the govt. on policy measures, to review export performance of various sectors, identify constraints and suggest industry specific measures to optimize export specific earnings.

- **Export Promotion Board**
  - In order to provide greater coordination among concerned ministries involved in exports, the Export promotion board works under the chairmanship of the Cabinet Secretary to provide policy and infrastructural support. The secretaries of all the ministries directly related to international trade are represented in this board.
  - The coordinated approach of board provides the required impetus to the export sector and resolves inter-ministerial issues in promoting exports.

- **Export Inspection Council** is a statutory body, responsible for the enforcement of quality control and compulsory pre-shipment inspection of various exportable commodities.
- **Indian Institute of Foreign Trade** is engaged in activities like
  - Training of personnel in modern techniques of international trade;
  - Organization of research in problems of foreign trade;
  - Organization of marketing research, area surveys, commodity surveys and market surveys; and
  - Dissemination of information arising from its activities relating to research and market studies.

- **Indian Institute of Packaging**
  - The main objectives of the institute are:
  - To undertake research on raw materials for the packaging industry
  - To keep India in step with international developments in the field of packaging
  - To organize training programmes on packaging technology
  - To stimulate consciousness of the need for good packaging
  - To organize consultancy services for the industry.
  - Its activities include effecting improvements in packaging standards and rendering testing facilities for packaging.
- **Export Promotion Councils** work for both advisory and executive functions under the Ministry of Commerce. The major functions are:
  - To provide commercially useful information and assistance to their members in developing and increasing their exports.
  - To offer professional advice to their members in areas, such as technology up gradation, quality and design improvement, standards and specifications, product development, innovation etc.

- To organize visits of delegations of its members abroad to explore overseas market opportunities.
- To organize participation in trade fairs, exhibitions, and buyer-seller meets in India and abroad.
- To promote interaction between the exporting community and the government , both at the central and state levels.
- To build a statistical database and disseminate information.

- **Commodity Boards:** In order to look after the issues related to production, marketing and development of commodities, there are nine statutory commodity boards as under:

- The Tea Board
- The Coffee Board
- The Coir Board
- The Central Silk Board
- The All-India Handlooms and Handicraft Board
- The Rubber Board
- The Cardamom Board
- The Spice Board

- The board carry out the following functions:
- Provide an integrated approach for production development and marketing of the commodity under the purview.
- Act as a linkage between Indian exporters and importers abroad.
- Formulate and implement quality improvement systems, research and development programmes, education and training of farmers, producers, packers, and exporters on post-harvest management practices.
- Act as an interface between international agencies such as the ITC, Geneva, Food and Agriculture Organization (FAO) and United Nations Industries Development Organization (UNIDO) etc.
- Collect and disseminate information on production, processing, and marketing of the products under their purview.
- Export promotion activities such as participation in international trade fairs, organizing buyer-seller meets, inviting foreign delegations and taking Indian delegations abroad.

- **The Export Development Authority** looks into promotion of various other commodities not under the earlier Boards.
- **Agriculture and Processed Food Products Export Development Authority**
  - Set up under an act of Parliament of 1986, APEDA looks after the promotion of exports of agriculture and processed food products. The basic functions are
  - Development of database on products, markets and services.
  - Publicity and information dissemination
  - Inviting official and business delegations from abroad
  - Organizing promotional campaigns abroad and visits of official and trade delegations abroad
  - Participation in international trade fairs in India and abroad
  - Organization of buyer-seller meets and other business interactions
  - Distribution of annual APEDA awards
  - Provides recommendatory, advisory and other support services to trade and industry.
  - Resolving issues and problems of its members related to government agencies and organizations, RBI, customs, import-export procedures, problems with importers through Indian missions abroad.

- **Marine Products Export Development Authority (MPEDA)**
- Established in 1972, is an autonomous body under the Ministry of Commerce aimed at increasing export-oriented production, specifying standards, processing and export marketing of all kinds of fisheries and its products. It offers a comprehensive range of services to exporters so as to develop exports of marine products from India including market promotion.
- The basic functions of MPEDA are
- Conservation and management of fishery resources and development of offshore fishing
- Registration of exporters and processing plants
- Regulation of marine products export
- Laying down standards and specifications
- Helping the industry in relation to market intelligence, export promotion, and import of essential items
- Promotion of commercial shrimp farming
- Promotion of joint ventures in aquaculture, production, processing and marketing of value added seafood.

- **Federation of Indian Export Organizations**
- Apex body of various export-promotion organizations and institutions in India. Set up in 1965, the FIEO acts as a primary servicing agency to provide integrated assistance to govt. recognized export and trading houses.
- Acts as the central coordinating agency for promoting exports of consultancy services from India.
- The basic functions of FIEO are
- Maintaining linkages with international agencies and export promotion organizations in other countries
- Organizing visits of multi-product delegations to prospective overseas markets and hosting foreign business delegations in India
- Organizing buyer-seller meets in India and abroad
- Providing advisory services to its members as well as foreign buyers in international markets

- Maintaining a comprehensive database on India's export sector
- Acting as a nodal agency for promoting exports of consultancy and other services
- Disbursing market development assistance to export and trading houses
- Keeping track of export-related policy changes and act as an interface between the govt. and the exporters so as to resolve the problems of its member exporters
- Interacting closely with the central bank, commercial banks, financial institutions, and the ECGC and take up issues and problems of its member exporters.

- **Indian Council of Arbitration**

- Set up under the Societies Registration Act, promotes arbitration as a means of setting commercial disputes and popularizes the concept of arbitration among traders, particularly those engaged in international trade.

- **Indian trade promotion organization**
  - Provides a broad spectrum of services to trade and industry so as to promote India's exports.
  - The major activities carried out by ITPO are
  - Participating in overseas trade fairs and exhibitions
  - Managing the extensive trade fair complex, Pragati Maidan in Delhi
  - Establishing linkages between Indian suppliers and overseas buyers
  - Organizing buyer-seller meets and other exclusive India shows in India and abroad
  - Organizing India promotions with department stores and mail order houses abroad
  - Arranging product displays for visiting overseas buyers
  - Organizing seminars, conferences, and workshops on trade-related subjects
  - Encouraging small and medium scale units in their export promotion efforts
  - Conducting in-house and need based research on trade and export promotion
  - Trade information services through electronic accessibility at Business Information Centre

- **Export Credit Guarantee Corporation**
- Provides credit insurance in order to protect exporters from consequences of payment risks both political and commercial and to enable them to expand their overseas business without fear of loss.
- The type of insurance protection provided by ECGC may be grouped as follows:
- A range of credit risk insurance covers to exporters against loss in export of goods and services
- Guarantees to banks and financial institutions to enable exporters obtain better facilities from them
- Overseas investment insurance to Indian companies investing in joint ventures abroad in the form of equity or loan.
- In addition to insurance protection to exporters against payment risks, the ECGC facilitates the exporters by
- Providing guidance in export-related activities
- Making available information on different countries with its own credit ratings
- Providing information on the credit worthiness of overseas buyers
- Making it easy to obtain export finance from banks/financial institutions
- Assisting exporters in recovering bad debts.

- **Export-Import Bank of India**
  - Set up by an act of parliament in September 1981.
  - Aims to provide financial assistance to exporters and importers, and to function as the principal financial institution for coordination the working of institutions engaged in financing export and import of goods and services with a view to promote international trade.
  - The major services extended by Exim Bank for promoting exports are:
  - It provides information and support services to Indian companies to help improve their prospects for securing business in multilateral agencies funded projects. These services include:
  - Disseminating business opportunities in funded projects
  - Providing detailed information on projects of interest
  - Informing on procurement guidelines, policies, practices of multilateral agencies
  - Assisting with registration with multilateral agencies
  - Advising Indian companies on preparation of expression of Interest, capability profile etc.
  - Intervening in bids

- In order to promote Indian consultancy, it has tie-ups with a number of international organizations such as IFC, Eastern ad Southern African Trade and Development Bank etc.
- Serve as a consultant to various developing countries for promoting exports and exports finance.
- Helps in knowledge-building by way of conducting seminars, workshops and carrying out research studies on projects, sectors, countries and macroeconomics issues relevant to international trade and investment.
- Gathers and disseminates information on exporters/importers, industry/market reports, trade regulations and laws, country reports, international quality standards etc., so as to facilitate exporters.

Special Economic Zone

- To overcome the shortcomings experienced on account of multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime, and with a view to attract larger foreign investments in India, Special economic zones (SEZs) policy was announced in April 2000.
- To instill confidence in investors and signal the govt's commitment to a stable SEZ policy regime, the Special Economic Zones Act was passed by Parliament in May 2005.
- "a specifically demarked duty-free enclave and shall deemed to be foreign territory (out of customs jurisdiction) for the purpose of trade operations and duties and tariffs."

- Objectives of the SEZ act are:
  - Generation of additional economic activity
  - Promotion of exports of goods and services
  - Promotion of investment from domestic and foreign sources
  - Creation of employment opportunities
  - Development of infrastructure facilities
- The SEZ Act, 2005 supported by SEZ Rules, came into effect on 10th February, 2006, providing for:
  - Simplified procedure for development, operation, and maintenance of the SEZs and for setting up units and conducting business in SEZs
  - Single window clearance for setting up of an SEZ
  - Single window clearance for setting up a unit in a SEZ
  - Single window clearance on matters relating to Central as well as State Govts
  - Simplified compliance procedures and documentation with an emphasis on self certification.

Types of SEZ

- **Sector Specific SEZ**: sector specific SEZ units may be set up for-
  - Manufacture of one or more goods in a sector; or
  - For rendering of one or more services in a sector.
- **Multi-Product SEZ:** Multi-product SEZ units may be set up for-
  - Manufacture of two or more goods in a sector; or
  - Goods falling in two or more sectors such as trading and warehousing; or
  - Rendering of two or more services in a sector; or
  - Services falling in two or more sectors.
- **Other SEZs:**
  - SEZ in a port or airport; or
  - SEZ for Free Trade and Warehousing

- **Administrative Set-Up**
- Functioning is governed by a three tier administrative set up.
- Board of Approval is the apex body and is headed by the Secretary, Department of Commerce.
- The Approval Committee, consisting of Development Commissioner, Customs Authorities and representatives of State Government, and the Zone level deals with approval of units in the SEZs and other related issues.
- Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.
- Performance is periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

Facilities and Incentives

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100% Income Tax exemption on export income for SEZ units under Section 10 AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State sales tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017.
- Other levies as imposed by the respective State Governments.
- Single window clearance for Central and State level approvals.

- **The major incentives and facilities available to SEZ developers include:**
  - Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
  - Income Tax exemption on income derived from the business development of the SEZ in a block of 10 years under Section 80-IAB of the Income Tax Act.
  - Exemption from Central Sales Tax.
  - Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act.)
- **Advantages of SEZ Units in India**
  - 10-year tax holiday in a block of the first 20 years.
  - Exemption from duties on all imports for project development.

- Exemption from excise/VAT on domestic sourcing of capital goods for project development.
- No foreign ownership restrictions in developing zone infrastructure and no restrictions on repatriation.
- Freedom to develop township in to the SEZ with residential areas, markets, play grounds, clubs and recreation centers without any restrictions on foreign ownership.
- Income tax holidays on business income.
- Exemption from import duty, VAT and other Taxes.
- 10% FDI allowed through the automatic route for all manufacturing activities.
- Procedural ease and efficiency for speedy approvals, clearances and customs procedures and dispute resolution.
- Simplification of procedures and self-certification in the labor acts.
- Artificial harbor and handling bulk containers made operational throughout the year.

- Houses both domestic and international air terminals to facilitate transit, to and fro from major domestic and international destinations.
- Has host of Public and Private Bank chains to offer financial assistance for business houses.
- A vibrant industrial city with abundant supply of skilled manpower, covering the entire spectrum of industrial ad business expertise.
- Well connected with network of public transport, local railways and cabs.
- Pollution free environment with proper drainage and sewage system.
- In-house customs clearance facilities
- Easy access to airport and local railway station.
- Full authority to provide services such as water, electricity, security, restaurants and recreational facilities within the zone on purely commercial basis.
- Abundant supply of technically skilled as well as semi-skilled manpower.

Challenges Faced by SEZs

- Unutilized land (more than 25000 hectares) in SEZs as well as lack of flexibility to utilize land in SEZs for different sectors.
- Existence of multiple models of economic zones such as SEZ, coastal economic zone, Delhi-Mumbai Industrial Corridor, National Investment and Manufacturing Zone, food park and textile park that are not yet rationalized.
- Under-utilization of existing capacity. Currently, SEZ units are not allowed to do "job work" for domestic tariff are units.
- Domestic sales of SEZs face a disadvantage as "they have to pay full customs duty" as compared to the lower rates with the ASEAN countries due to Free trade agreement.
- Lack of support from the state government when it comes to developing effective single-window system for clearance.
- Requirement of payment in foreign exchange for services provided by SEZ units to DTA area.

- The CII has raised four SEZ issues that fall in the domain of the finance ministry of the Reserve Bank of India:
- Grant infrastructure status to buildings of SEZs and industrial parks
- Permit external commercial borrowing for entire SEZ infrastructure
- Allow a refinancing option through ECB
- Relax the "risk weight age norm" for the real estate sector.

Disadvantages/Limitations

- Revenue losses because of the various tax exemptions and incentives.
- Many traders are interested in setting up of SEZ so that they can acquire land at cheap rates and create a land bank for themselves.
- The number of units applying for setting up EOU's is not commensurate to the number of applications for setting up SEZ's leading to a belief that this project may not match up to the expectations.

Export Oriented Units (EOUs)

- Introduced in the early 1981 with the following objectives:
  - Boosting exports
  - Earning foreign exchange
  - Attracting FDI
  - Generating employment
  - Backward and forward linkage by way of sourcing of raw material from and supply of finished goods to DTA
  - Attracting latest technology into the country
  - Upgrading the skill and creating source of skilled man-power
  - Development of backward area

Scope

- Introduced basically for manufacturing sector with certain minimum value addition in terms of export earnings.
- Presently, units undertaking to export their entire production of goods are allowed to be set up as an EOU.
- Units may be engaged in:
- Manufacturing, services, development of software, repairs, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewelry and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites.
- The EOUs can export all products/services except prohibited items of exports in ITC (HS).

Eligibility Criteria for EOU

- Project must have a minimum investment of Rs. One crore in plant and machinery.
- This condition doesn't apply for software technology parts, electronics hardware technology parks and bio-technology parks.
- EOU involved in handicrafts, agriculture, animal husbandry, information technology, services, brass hardware and handmade jewellery don't have any minimum investment criteria.

TYPES

- Can be categorized in three types:
- EOUs established anywhere in India and exporting 100% products except certain fixed percentage of sales in the Domestic Tariff Area as may be permissible under the policy.
- Units in Free Trade Zones in Special Economic Zones and exporting 100% of these products.
- EOUs set up in Software Technology Parks and Electronics Hardware Technology Parks of India for development of software and electronic hardware.

- The major sectors in EOU are:
- Granite
- Food Processing
- Textiles/Garments
- Computer Software
- Pharmaceuticals
- Gems and Jewellery
- Engineering Goods
- Electrical and Electronics
- Coffee
- Chemicals

Incentives/Facilities Available to EOUs

- Duty free imports or procurement from bonded warehouse/international exhibitions of inputs, consumables, office or other capital goods (including second-hand capital goods) etc.
- Procurement of goods from Domestic Tariff Area (DTA) without payment of Central Excise duty.
- Supplies by DTA manufacturer are eligible for deemed export benefits under Chapter 8 of Foreign Trade Policy, which include drawback, refund of Terminal Excise Duty and Issuance of Advance Authorization enabling duty free import to the DTA supplier.
- Full reimbursement of Central Sales Tax on goods purchased from DTA against C-Form for manufacture of goods for export.

- DTA sale (including advance DTA sale) upto 50% of f.o.b. value of export (i.e. Physical Exports) permitted on payment of concessional rate of central excise duty.
- Job-work/sub-contracting for or from DTA permitted subject to fulfillment of certain conditions.
- Import/export of goods including precious goods permitted through personal carriage and Foreign Post Office.
- FDI up to 100% permitted as per the guidelines of Department of Industrial Policy and Promotion.
- Exemption from Industrial Licensing for manufacture of items reserved for SSI Sector.
- Software Units allowed to use computer systems for training purposes (including commercial training)

- EOUs are allowed to install one fax machine and two computers outside the bonded area of the unit.
- Depreciation upto 100% is permissible on capital goods. On de-bonding, the duty is to be paid on the depreciated value of the capital goods.

Comparison of EOU and SEZ Scheme

Basis	Special Economic Zone	Export Oriented Unit
Income Tax	100% income-tax exemption for five years and 50% exemption for five years and thereafter 50% exemption for five years in case of re-investment of profits in terms of section 10AA of Income Tax Act, 1961 inserted after section 10A as per the Second Schedule of the SEZ Act. The units commencing operations before 1st April, 2005 shall be covered as per provision contained under section 10A of Income Tax. Act. Note: In terms of SEZ Act, 2005 (w.e.f 10.2.2006) for SEZ developer, the exemption from Income Tax shall be available for a period of 10 years in a block of 15 years as per section 80 –IAB inserted after section 80-IA in terms of Second Schedule of the SEZ Act, 2005.	100 % Income-tax exemption up to 31.3.2011 (i.e. Assessment Year 2011-12) or first 10 years whichever is earlier. At present, no income tax exemption available to EOU/STP/EHTP/BTP units.

Basis	Special Economic Zone	Export Oriented Unit
Construction Material	Goods for infrastructure development/maintenance i.e. construction material allowed to be imported/procured indigenously duty free.	Goods for infrastructure development i.e. construction material not allowed to be imported/procured indigenously duty free.
Service Tax	SEZ units/developer exempted from payment of service tax in respect of services consumed within the SEZ. Services used partially in the SEZ or outside the SEZ as per notification issued by CBEC are allowed to be refunded.	EOUs not exempted from payment of service tax, however CENVAT credit is allowed for service tax paid. Post manufacture services which are not input services are allowed to be refunded as per notification issued by CBEC.
DTA Sale	DTA sale allowed on payment of full custom duty as applicable on imported goods.	Limited DTA sale (upto 50% of FOB value of exports) permitted on payment of concessional rate of duty. Subject to achievement of positive Net Foreign Earnings, EOUs are allowed to sell goods in DTA on payment of full excise duty which is equivalent to import duty.

Basis	Special Economic Zone	Export Oriented Unit
Trading Unit	Trading Units are allowed to be set up in SEZ.	Trading Units are not permitted to be set up under EOU scheme.
Domestic Procurement	Supply from DTA to SEZ is physical exports.	Supply from DTA to EOU considered as ‘deemed’ exports.
Period of Utilization	Duty free goods (except capital goods) to be utilized within the validity period of Letter of Permission.	Duty free goods (except capital goods) to be utilized within the validity period of three years.
Foreign Investment	100% FDI investment permitted through automatic route for SEZ manufacturing unit and formal Foreign Invesment Promotion Board (FIPB) approval not required. Sector specific guidelines are applicable.	100% FDI investment permitted through automatic route for EOUs and formal FIPB approval not required. Formal FIPB approval required. Sector specific guidelines are applicable.

Basis	Special Economic Zone	Export Oriented Unit
Customs Documentation	All import/export documentation and assessment formalities to be completed in the zone itself.	All import/export documentation and assessment formalities to be completed at the respective port of import/export.
Examination of Goods	No routine examination of export/import goods by Customs.	Examination of export/import goods by Customs except in cases where self certification is allowed.
Location Requirements	SEZ units can only be set up in the SEZ notified under Section 4 of the SEZ Act.	No such requirement for EOU. EOU can be set up anywhere in the country on standalone basis provided the area has been declared as warehousing stations.
Investment Requirements	No minimum statutory investment limit prescribed.	Minimum investment limit of one crore in plant and machinery required except certain specified sectors such as software, handicraft etc.

Foreign Investment in India

- **Foreign Investment Promotion Board (FIPB)**
  - Empowered to engage in meaningful negotiations and consider proposals in totally free from predetermined parameters on procedures.
  - Industry Secretary is the Chairman of FIPB.
  - Other members includes The Finance Secretary, Commerce Secretary and Secretary (Economic Relations) Ministry of External Affairs.
  - Liberal approach for all sectors and all types of proposals.
  - Totality of package proposed is examined and approved on merit within thirty days.
  - General permission granted by RBI under FERA in respect of proposals approved by the Govt.

- **Foreign Investment Promotion Council**
  - Constituted FIPC in the Ministry of Industry
  - More target-oriented approach towards FDI promotion
- **Functions:**
  - To identify the sector/project within the country requiring FDI and
  - Target specific regions/counties of world from where FDI will be brought through.
- **Routes of FDI Flow**
  - **Automatic Route:** Companies don't require any govt. approval, provided the proposed foreign equity is within the specified ceiling and the requisite documents are filed with the RBI within 30 days of receipt of funds.

- **Government Route**
- Prior to investment, approval from the Government of India is required.
- Proposals for foreign investment under this route, are considered by respective administrative Ministry/Department.
- Govt. approval through the FIPB would be necessary.

- **Highlights of the recent policy measures are as follows:**
- FDI up to 100% under automatic route permitted in Teleports, Direct to Home, Cable Networks, Mobile TV, Head end-in-the Sky Broadcasting Service.
- 49% FDI under automatic route permitted in Insurance and Pension sectors.
- To attract investment in the defence sector, the govt. has removed the condition of "state of art" technology, besides permitting foreign investment in manufacturing of small arms and ammunition.
- In a significant reform move, the govt. allowed 100% FDI in airlines and relaxed norms for overseas investments in Brownfield airports.

- The DIPP also notified the changes in pharmaceuticals, in which govt. has allowed FDI upto 74% through automatic route and beyond that under govt. approval.
- The govt. has already relaxed norms in animal husbandry sector.
- Foreign investment up to 49% in defence sector permitted under automatic route. The foreign investment in access of 49% has been allowed on case to case basis with govt. approval in cases resulting in access to modern technology in the country or for other reasons to be recorded.
- FDI up to 100% under automatic route permitted in Up-linking of Non- 'News & Current Affairs' TV Channels, Down-linking of TV Channels.
- 100% FDI under automatic route permitted in Brownfield Airport projects.

- 100% FDI permitted in Telecom sector, automatic up to 49% govt. route beyond 49%.
- 100% FDI permitted in Single Brand product retail trading, automatic up to 49% Govt. route beyond 49%.
- 100% FDI under automatic route permitted in Industrial Parks – new and existing.
- FDI up to 100% under the automatic route is permitted for manufacturing of medical devices.
- 100% FDI under automatic route permitted in Construction Development: Townships, Housing, Built-up Infrastructure.
- 100% FDI under govt. route permitted in Satellites-establishment and operation, subject to the sectoral guidelines of Department of Space/ISRO.

- Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non scheduled air transport services up to the limit of 49% of their paid-up capital.
- Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non scheduled air transport services up to the limit of 49% of their paid-up capital.
- 100% FDI under govt. route for retail trading, including through e-commerce has been permitted in respect of food products manufactured and/or produced in India.
- 100% FDI allowed in Asset Reconstruction Companies under the automatic route.
- 74% FDI under automatic route permitted in brownfield pharmaceuticals. FDI beyond 74% will be allowed through govt. approval route.

Joint Venture

- Equity participation of two or more firms resulting in formation of a new entity.
- Based on the equity stake joint ventures may be of the following three types:
  - Majority with more than 50% ownership
  - A 50-50 equity with equal ownership
  - Minority with less than 50 percent ownership
- In India, it requires approval by RBI in case of automatic approval and from the Foreign Investment Promotion Board in case of special cases.
- After getting the approvals and selecting the partner, the partners need to sign Memorandum of Understanding or a Letter of Intent through discussion on the terms of agreement.

Advantages of Joint Venture

- Provide access to countries where complete ownership is restricted
- Equity sharing also provides access to complementary strengths of the partner firm besides capital
- Require less investment compared to complete ownership
- Higher returns compared to trade related and contractual expansion modes
- Greater degree of control vis-à-vis contractual modes
- Reduce operating and political risks
- Effectively overcome tariff and non-tariff barriers of the host country.

Limitations of Joint Ventures

- Shared control over overseas operations
- Risk of equity partner becoming a future competitor
- Management problems due to cultural differences
- Difference in goals and objectives of partner firms leads to conflicts
- Trade secrets, processes, and know-how are often shared
- Selection of right partner having compatible goals is a difficult tasks
- Lack of flexibility as partnering firms have long-term investments.

- **Indian Joint Ventures**
  - Maruti Suzuki
  - Tata Starbucks Private Limited
  - Hero Honda
  - Bharti Walmart
  - Tata Motors Fiat
  - Mahindra Renault
  - Biocon Neoplarma
  - Mahanagar Gas Limited
  - Bloomberg Quint

- **Reasons for failure of Joint Venture in India:**
  - Cross cultural problems such as values, working styles, understanding and not language as English is mostly spoken in India.
  - Difference in perspective of owners and managers. In case of India, we have mostly family run business, which is not the case in western countries.
  - Foreign companies have more access to capital as compared to Indian companies.
  - Startup culture varies, which creates hassles as joint venture leads to something new.
  - The fight between the partners to control the joint venture entity.

Mergers and Acquisitions

- Transfer of existing assets of a domestic firm to a foreign firm lead to mergers and acquisitions.
- **Cross-border mergers:** a new legal entity emerges by way of merging assets and operations of firms from more than one country.
- **Cross-border acquisition:** involves transferring management control of assets and operations of a domestic company to a foreign firm. As a result the local firm becomes an affiliate of the foreign company.
- Acquisition can be of three types:
  - **Minority:** when a foreign firm acquires 10 percent to 49 percent interest in a firm 's voting stock
  - **Majority:** when a foreign firm acquires 50 percent to 99 percent voting interest
  - **Full Outright stake:** when a foreign firm acquires 100 percent of voting stock

Types of Mergers & Acquisitions

- **Horizontal Merger:** when the combined companies are involved in the same line of business and catering to the same market.
- **Vertical Merger:** When the companies that are merging are involved in the businesses which are part of the same value chain or different stages of the same production cycle. It is of two type: forward or backward linkage.
  - Backward Linkage: When the company merges with its supplier of raw material.
  - Forward Linkage: when the company merges with its distributor.
- **Conglomerate Merger:** when companies operating in unrelated and different businesses merged.
- **Congeneric or Concentric Merger:** mergers between companies which share some common ground be it types of customers, technology or production process, but don't produce the same product.

Advantages/Motives of M& As

- Benefits of economies of scale
- Capturing a large market
- Tapping the underutilized resources
- Reducing the financial risk
- Reduced risk of competition
- Reduced cost of capital
- Tax advantage

- There are various **problems** a company may face while going for mergers and acquisitions:
  - Integration issues as the companies may have different organization structure and philosophies.
  - Conflicts among the management as well as the employees which will create roadblocks in the process.
  - Cultural and language differences in case of cross broader mergers.
  - Lead to formation of a very large merged entity, that is difficult to manage.
  - In case of hostile takeover, the management and employees of the target company may not be supportive and willing to work.
  - The acquirer may have to deal with the target company's liabilities and obsolete assets, which can act as a burden.
  - In case the firms mismatch in size, it may lead to a total failure, if proper feasibility study is not done beforehand.

Mergers and Acquisitions in India

- **Indian Mergers and Acquisitions Abroad**
  - Tata Tea and Tetley
  - Tata Steel and Corus Group
  - Hindalco and Novelis
  - Tata motors and Jaquar Land Rover
  - Ranbaxy Laboratories Limited
  - Bennett Coleman & Co Ltd and Virgin Radio
  - Oil and Natural Gas Corp and Imperial Energy Plc.
  - Suzlon Engergy Limited and Re Power Systems
  - Mahindra & Mahindra Limited and Schoneweiss & Co. GmbH
  - Lupin and GAVIS

- **Domestic mergers & Acquisitions**
  - Jabong was acquired by Myntra
  - ING Vysya Bank was acquired by Kotak Mahindra Bank
  - Jaiprakash Associates Limited was acquired by Ultra Tech Cement Limited
  - Welspun Renewable Energy Private Limited was acquired by Tata Power Renewable Energy Limited
  - Cairn India Limited merged with Vedanta Limited
  - Aditya Birla Nuvo Limited merged with Grasim Industries Limited

- **Factors that enabled Indian companies to go on an acquisition spree include**
  - Major Indian companies had surplus cash reserves that were to be better invested in the production facilities.
  - The financial reform process simplified the process of overseas acquisitions by removing the cap of US$100 million on foreign investment in 2001.
  - The rupee grew strong in international markets that made better sense to invest outside.
  - Balance of payments surplus ensured that the dollar became available easily.
  - Exposure to the international competitive environment underlined the need to incorporate professional work environment available in the developed countries.

Reasons for international acquisitions

- To increase productivity levels to internationally accepted standards.
- To raise the profitability by achieving scale economies in logistics, transportation etc.
- To improve their competitiveness in the global market by strategic location of the manufacturing facilities closer to the user markets.
- To get better access to foreign markets especially when there are strong entry barriers in the shape of Sanitary and Phytosanitary (SPS) restrictions and environmental constraints.

- **Broadly, the acquisition strategy followed by Indian firms was to**
  - Acquire companies in the developed countries that were facing mounting costs and falling profit levels.
  - Turn them around through a synergy of a local distribution network and low-cost manufacturing based in India, so as to make the companies financially viable and competitive.
  - Develop the developed country markets through a barrier free entry riding on the brands of the foreign ‘acquired’ firms.
  - Protect the developing country markets by sustaining the existing distribution network and by introducing premier products of the ‘acquired’ firms.

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1. Learning Outcomes

This Unit has been organised to examine the trends of foreign investment inflows in India which have grown substantially since 1992 and analyse the factors influencing the flows with a view to understanding the prospects for inflows in future. After going through this Unit, you shall be able to:

- Have an overview of India's policy towards foreign investment;
- Describe FDI trends in the country;
- Analyse major roadblocks faced by foreign investors;
- Appraise the trends and impact on Indian economy.

2. Introduction

FDI performs a multidimensional role in the overall development of the host economies. There is a strong relationship between foreign investment and economic growth. FDI flows generally come as capital bundled with technology, skill, and sometimes even market access. Larger inflows of foreign investments are needed for the country to achieve a sustainable high path of economic growth. In view of this largely benign view of FDI, there has been an intense '*global race'* for foreign investment. The earlier difficulties faced by foreign investors are gradually being removed and since 1991, the Government of India is also coming out with new reform measures to promote foreign investment in the country. FDI involves foreign investors taking a controlling and lasting stake in productive enterprises. This is a major source of non-debt financial resource for the economic development of India. The continuous inflows of FDI in India show the confidence that foreign investors have in the country's economy.

3. India's Policy towards Foreign Capital

This section attempts to present an overview of India's foreign investment policy. Since independence foreign investment policy can be studied under *four* distinct phases. *Phase I* (1948-1966) was marked by a cautious approach and it was followed by the *Phase II* (1967-1979) which was characterised by a restrictive regime. *Phase III* (1980-1990) exhibited a progressive attenuation of regulations and *Phase IV* (1991-onwards) witnessed liberal foreign investment environment.

The attitudes towards foreign investment are reflected in India's official policy towards private foreign investment (PFI) and technology. Successive policy statements, beginning with the Prime Minister's 1949 policy statement on foreign capital, have recognised the technological and financial contribution of PFI to the economy. Foreign firms have been assured that there would be no restrictions on the repatriation of capital and remittances of profits, and that there would be no nationalization without compensation. Foreign firms have also been offered various forms of tax exemption and tax concessions. While the broad framework of policy has not been hostile to foreign enterprise participation, PFI has been subject to a detailed set of regulations concerning its sectoral allocation and the nature of its participation. The regulatory framework has had an impact on the composition and organizational pattern of foreign enterprises articulation in India. In sum, strict controls and draconian restrictions were imposed under the FERA on the areas of investment, extent of shareholding, dividend repatriation, holding of property etc. This rather restrictive perception of the role of foreign investment not surprisingly resulted in a setback for foreign investment.

The *fourth phase* starts when the Government focused its attention on dismantling the control so as to remove unnecessary hurdles and Government initiated a number of measures in this regard to improve and attract foreign investment. This policy is appraised on a continuing basis and measures for its further liberalisation are taken. India has liberalized her FDI policy regime considerably since 1991 besides opening new sectors to FDI. Very recently, the Government announced a consolidated policy on May 12, 2015 and many initiatives in recent years have been taken relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. Easier FDI rules for construction sector, where 100 per cent overseas investment is permitted, which will allow overseas investors to exit a project even before its completion. It also includes 100 per cent FDI permission under automatic route in completed projects for operation and management of townships, malls and business centres. Higher FDI has also been allowed on a case-to-case basis. Other norms, such as simplifying the application process for an industrial license were relaxed; the list of equipment that requires industrial licences was reduced. In addition to increase in sectoral caps, simplification of procedures would substantially improve the milieu for foreign investors. Over time, both inflows and outflows under capital account have been gradually liberalised. Foreign investment is permitted in virtually every sector, except those of strategic concerns. Sector in which ***FDI is prohibited*** are: *lottery, gambling and betting, chit funds, nidhi company, manufacturing of* cigars, *cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes, sectors not open to private sector investment, atomic energy, and railways operat*ions.

- **FDI-related authorities**: The foreign investment policy announcements are made by Department of Industrial Policy and Promotion (DIPP) which are subsequently notified by RBI under *Foreign Exchange Management Act* (FEMA). In an attempt to adopt the IMF guidelines effective March 31, 1992, the objective criterion for identifying FDI has been fixed at 10 per cent ownership of ordinary share capital for a single investor. As such, definitions underlying the data on foreign investment underwent a change in 1992. RBI's automatic approval permission will be granted for FDI and foreign technology agreements in high priority industries subject to certain conditions. Besides automatic route, a *three-tier* system for approvals for foreign investment has been put in place: the *Foreign Investment Promotion Board* (FIPB), *the Secretariat for Industrial Assistance* (SIA), and *Foreign Investment Implementation Authority* (FIIA). The inflow and outflow of FDI into India is monitored by Ministry of Commerce and Industry and RBI. **A legal framework exists for FDI** under automatic and Government approval routes which is regulated by the *Foreign Exchange Management Act, 1999* (FEMA) and is amended from time to time.

- **Policies Relating to Portfolio Flows in India**: Prior to 1992, only non-resident Indians (NRIs) and overseas corporate bodies (OCBs) were allowed to undertake portfolio investment in India. In line with the recommendations of the *Rangarajan's High Level Committee on Balance of Payments*, FIIs were allowed to invest in the Indian debt and equity market. RBI has stated that "ceilings on FII investments have been progressively relaxed and at present, aggregate investment by FIIs in a company is allowed within the sectoral cap prescribed for FDI. Apart from equity, FIIs registered under the 100 per cent debt route can invest in debt instruments – both governments as well as corporate, the current aggregate ceiling being US $ 1 billion. The effective FPI limit was increased by allowing FPIs to invest coupons from G-secs, outside the overall limit, with effect from February 5, 2015. RBI has also allowed "two-way fungibility in ADR/GDR issues of Indian companies has been introduced under which investors in India can purchase shares and deposit them with an Indian custodian for issue of ADRs/GDRs by the overseas depository to the extent of the ADRs/GDRs converted into underlying shares. The experience with capital flows suggests that these flows are highly beneficial if they are absorbed". *Portfolio investments* are restricted to select players, *viz.*, *Foreign Institutional Investors (FIIs).* Short-term credits above US $ 20 million require prior approval of the Reserve Bank of India. In respect of NRI deposits, some control over inflows is exercised through specification of interest rate ceilings.

In addition to FDI, foreign investor has a number of routes for investment into India. These include:

(i) Investment in export trading companies,
(ii) NRI investments,
(iii) Off-shore funds,
(iv) Euro issues,
(v) Foreign institutional investments, and
(vi) Venture capital investments.

Scholar like *R. Nagaraj* has argued that "*our policy towards foreign investors does not have a focus"*. India's FDI policy should aim at encouraging investment in manufacturing for acquisition of technology and for the establishment of international trading channels to facilitate labor-intensive exports. The problem is that in dismantling the pre-1991 regulation of FDI, India has not just swung to the other extreme. The Government has not set about creating a policy regime that has neither coherence nor macro-economic purpose, the only objective being to create what it thinks is a set of incentives that will bring in large volumes of FDI". Countries like India need to follow policies to allow more desirable FDI inflows which have local content requirements and generate favourable externalities for domestic investments. The best idea, however, is to have a government that is not a prisoner of ideology. India is an attractive FDI destination now but the government needs to do more to sustain large inflows. Policy regime is one of the key factors driving investment flows to a country.

4. FDI Trends in the Country

- **Trends in FDI inflows to India**: **Pre-1991**: One of the most significant developments in the world economy in the 1990s has been the spectacular surge in international capital flows. It is noteworthy that the expansion of *capital flows* has been much larger than that of international trade flows. This section provides *trends in volume, patterns, and sources* of foreign investment in India.
  Over the period before 1984, foreign investment continued to take place *albeit* at a slow pace despite severe restrictions even during periods of maximum controls. The total assets of foreign subsidiaries increased by 144 per cent from Rs. 11,290 million in 1968-69 to Rs. 27,590 million in 1982-83 (at current prices). Their paid-up capital also increased by 72 per cent from Rs. 2,400 million to Rs. 4,120 million during this period. *After 1984*, however, the inflows of foreign capital in the form of equity remained quite low. In fact, the net inflows of foreign investment were mainly in the form of retained earnings that could be apportioned to the foreign equity holders. Between 1984 and 1990 actual fresh gross annual inflow of capital was just around Rs. 100 million in respect of foreign controlled domestic companies.
- **Volume of FDI-Post-1991**: The policy regime and a positive business environment have ensured that foreign capital keep flowing into the country. FDI to India which stood at a low level of US $ 97 million during 1990-91, picked up significantly thereafter. Inflows of FDI registered a spectacular rise to $33 billion in 2010-11. As per RBI data cumulative FDI inflows from April 2000 to November 2014 were US$ 350.9 billion. There is an illusion about FDI. According to a study co-authored by *Biswajit Dhar*, which consider every FDI project entailing an investment of $5 million and more between 2004 and 2009, provides an insight that proves that a large proportion of FDI is just as volatile and transitory as portfolio capital. The study that considered 2,748 projects, which accounted for almost 90 per cent of all FDI in the 2004-2009 period, found that the lowering of norms prescribing the minimum level of equity stake in an '*FDI invested*' project — from 40 per cent to 10 per cent — offered perverse incentives to capital flowing in the garb of FDI. FDI in India averaged 1082.51 US$ Million from 1995 until 2015, reaching an all-time high of 5670 US$ Million in February of 2008 and a record low of -60 US$ Million in February of 2014.
- **Sectoral distribution of FDI**: India has witnessed a large amount of foreign investment in various sectors. From this perspective, FDI in India mainly flowed into services, telecommunication, computer software and hardware, cconstruction activities, manufacturing and '*others*' largely are comprising '*electricity and other power generation*'. FDI in the manufacturing sectors is highest in housing and real estate and construction. Given India's infrastructure deficit, it is no surprise that FDI is strong in this area. The first manufacturing segment to enter the top 10 FDI sectors is automobiles. FDI

in automobiles reflects both the fast growth of the Indian middle class market and India's international role in the middle to small car segment. Power, metallurgy and petroleum and natural gas make up the other major sectors of FDI. FDI flowed into the manufacturing sector followed by financial services, retail and wholesale trade. Within the manufacturing sector, transport equipment and chemical sectors were the major recipients and accounted for about 50 per cent of the total FDI in 2014-15. Over the recent past, the sector-wise inflows of FDI have undergone a change. *In short*, services, construction, telecommunications, computer software and hardware, drugs and pharmaceuticals, the automobile industry, chemicals, and power have attracted a proportionately high share of total inflows.

- **State-wise distribution of FDI**: In India there are 29 States and 7 Union Territories. All the states give top priority to attract FDI on a large scale for developmental purpose. FDI inflow to states varies widely which leads to concentration of FDI inflow. The state-wise trends in FDI show that *Maharashtra, Delhi, Karnataka, Tamil Nadu and Gujarat* have been the largest recipients of FDI in terms of cumulative FDI inflows from January 2000 to October 2015. These states are either known for their strong industrial base (like Gujarat) or as software hubs (like Karnataka and Delhi). This could also be attributed to their better resources, infrastructure like roads and power, investor-friendly policies like single-window clearances and investment promotion schemes like special economic zones. However, the competition among the states to promote their own state in attracting FDI has led to an increasing trend in FDI in other states. Infrastructure and regional development are found to be key factors in attracting higher FDI, both in the export and domestic market-seeking sectors.
- **Sources of FDI**: Foreign investment is mainly routed through Mauritius followed by Singapore, US and UK were among the leading sources of FDI. Share of top five investing countries in India stood at 69 per cent. Mauritius was the top country of origin for FDI flows into India, primarily driven by the tax haven status enjoyed by Mauritius. According to official data, Mauritius is accounting for an inflow of US$ 83,730 million in the April 2000-November 2014 period. The inflow of foreign investment from Singapore amounted to US$ 29,193 million, followed by the UK at US$ 21,761 million and Japan at US$ 17,557 million during April 2000-November 2014.

  One important form of foreign capital comes from ***remittances***. It is important to point out that in recent times India receives large private transfers in the form of remittance inflows from non-residents and also capital inflows in the form of NRI deposits. This is an altogether separate category. India continues to attract the largest amount of remittances among developing economies. India has received an amount of $72 billion in 2014-15. That is twice the estimated current account deficit (CAD) for the year. According to *Kaushik Basu* "remittances act as a major counter-balance when capital flows weaken. Nevertheless, the remittances are not without its problems. The risks involved in this cannot be denied because a lot of this money does not come in for patriotic reasons but to milk high nominal interest rates in India. Another growing concern is the deepening economic crisis in West Asia, resulting from the collapse of oil prices, could harm remittances from that part of the world".

- **FII investments** first started flowing to India in 1993. Portfolio investment inflows have since then been substantial, with the lone exception of 1998-99. During 2014-15, *foreign portfolio investors* (FPIs) brought in about US$ 41 billion to Indian equity and debt markets, making India the most attractive destination among emerging markets. FDI accounts for just 1 per cent of domestic capital formation in India. According to a study by *NCAER*, India has inward FDI stock worth $76.2 billion and outward FDI stock of $29.4 billion in 2008. The FDI inflows accounted for 5.8 per cent of gross fixed capital formation (GFCF) in 2007.
- **New trends of MNCs in FDI**: Recently, some new trends in foreign investment have taken place in the form of ***MNCs setting up research centres in India***. IBM, Microsoft, GE, Sony-Ericsson, and many other MNCs have set up research centres in India. This also utilizes a form of cheaper labour-Indian professionals and scientists could be paid less than their counterparts in the developed centuries. Research requires not just individual scientists but whole groups of such scientists. India is by now well-known for the substantial supply of well-qualified scientists and technicians. MNCs research centres in India set up to tap into this supply are responsible for a lot of the patents that have been acquired out of India in the IT sector. The growing strength of India is in knowledge-based sectors, such as software and R&D, which is manifested in growing foreign investment in these sectors. The investment of foreign capital in setting up research centres in India needs to be noted as a new trend in MNCs operations in developing economies.

Another trend is witnessed in the shape of ***non-investment foreign-controlled Production***. Foreign influences over host country's economic activities can well occur without any capital investment at all. This occurs in a country in a number of *new forms of relationship – contracted manufacturing and farming, outsourcing of services, and franchising or licensing*. One increasingly common form of global production is that of contracted production within global production networks (GPNs) or global values chains (GVCs). In GPN production the sellers do not sell their product as commodities on the market, nor are they produced through MNC branches. Rather the producers make them under contract to the buyers. This is frequently the case with many labour-intensive segments of production. Such as manufacture of garments or footwear. In such contracted global production, the buyers specify the output in great detail. The design, colour, fabric, types of accessories are all specified. Delivery times are fixed. Obviously, prices too are fixed. In this form of chain or network production the buyers do not have to undertake any investment in production facilities. Forms of governance, as they are called, enable the buyers to keep control of the output. Such contracted production has extended beyond the relatively simple areas of garments and leather products to complicated electronic products, such as Laptop and other computers. The crucial point, however, is that there are forms of foreign control over production that do not involve foreign capital investment. The growth of such forms of contracted production that provide foreign buyers control without capital investment is an important development for consideration.

FDI outflows from India

A reverse trend of foreign investment by Indian companies, i.e., Indian MNCs should also be noted. Some major Indian companies, such as *Tata and Mahindra and Mahindra, have undertaken substantial FDI. Tata Steel-Corus, Tata Motors acquisition of Jaguar/Land Rover are important examples. Airtel has acquired telecommunication units in Bangladesh and Africa*. The Indian IT major have all set up branches in many countries and also acquired particular technology capabilities. They are either to acquire technology and brand names as in the case of Jaguar Land Rover or to acquire access to markets, as in Mahindra and Mahindra's investment in the US. The third set of Indian foreign investments is targeted at securing access to raw materials. Public sector companies, such as ONGC and oil India, are the major investors in this area; but there are also private investors, such as *Ambani* Industries in petrochemicals. Altogether, these are a set of expanding MNCs of India origin.

***Net FDI flow is computed as inflows less outflows*. The rules regarding Indian overseas investments have been progressively relaxed and the procedures have been simplified. Most of India's FDI is in manufacturing but it has begun to grow rapidly in IT services, particularly through mergers and acquisitions. The** *Table* **below provides data and one can have a glance at that for numbers.**

In India there has been little FDI in the export sectors. Indian exports continue to remain based on Indian capital. FDI has largely taken place to access the Indian domestic market, as in automobiles. While analysing the recent trends in FDI flows in India *Ragavendra Jha* finds that FDI flows to India have not been commensurate with her economic potential and performance. The quality of FDI as manifest in technological spillovers, export performance etc. is more important than its quantity. The study conducted by *K.S. Chalapati Rao and Biswajit Dhar* has emphasised that there is a need to have a close look at the present phenomenon of FDI. India should build an information base that will allow a proper assessment of the contribution that FDI can make to her economic development.

Table: Statement on Year-Wise/Route-Wise FDI Equity Inflows from January, 2000 to May, 2015

Amount in Rupees (US$) million

Calendar Year (January-December)	I Govt. approval Route (FIPB,SIA)	II Automatic Route	III Inflows through acquisition of existing shares Route	IV RBI's – Various NRI's Schemes ^	Cumulative total (I to IV)

2000	63,428 (1,475)	16,975 (394)	20,521 (477)	3,487 (81)	104,410 (2,428)
2001	96,386 (2,142)	32,411 (720)	29,622 (658)	2,292 (51)	160,711 (3,571)
2002	69,580 (1,450)	39,030 (813)	52,623 (1,096)	111 (2)	161,345 (3,361)
2003	42,957 (934)	23,400 (509)	29,284 (637)	-	95,640 (2,079)
2004	48,517 (1,055)	54,221 (1,179)	45,076 (980)	-	147,814 (3,213)
2005	49,672 (1,136)	68,743 (1,558)	74,292 (1,661)	-	192,707 (4,355)
2006	69,684 (1,534)	321,758 (7,121)	112,131 (2,465)	-	503,573 (11,119)
2007	107,873 (2,586)	361,002 (8,889)	186,075 (4,447)	-	654,950 (15,921)
2008	135,588 (3,210)	1,004,681 (23,651)	455,026 (10,234	-	1,595,295 (37,094)
2009	229,716 (4,680)	919,849 (19,056)	160,233 (3,309)	-	1,309,799 (27,044)
2010	115,966 (2,542)	655,519 (14,353)	188,664 (4,111)	-	960,150 (21,007)
2011	134,782 (2,933)	878,222 (19,053)	586,345 (12,636)		1,599,349 (34,621)
2012	159,557 (2,964)	845,289 (15,825)	211,069 (4,000)	-	1,215,914 (22,789)
2013	78,657 (1,345)	744,183 (12,806)	471,985 (7,887)		1,294,825 (22,038)
2014	109,979 (1,809)	1,226,012 (20,089)	417,143 (6,887)		1,753,134 (28,785)
2015 (up to May, 2015)	69,131 (1097)	938,684 (14,980)	79,006 (1262)		1,086,821 (17,339)
GRAND TOTAL ^ (as on 31.05.2015)	**1,581,473 (US$ 32,892)**	**8,129,979 (US$ 160,996)**	**3,119,095 (US$ 62,747)**	**5,890 (US$ 134)**	**12,836,437 (US$ 256,769)**

Source: RBI, (FED) Central Office, Mumbai

Note: '^'Since 2003, inflows included under the heading RBI's Automatic Route

5. Roadblocks/Hurdles Faced by Foreign Investors

It is more than two decades since India dismantled its restrictive FDI regimes and replaced it with one of the most open and relaxed countries. However, even now the debate is about how much more open India should be towards FDI. FDI flows to India continued to be sluggish because foreign investors face major roadblocks. All this made India a far less attractive investment destination for FDI than most of its competitors. Indian policy-makers must weigh the reasons behind low volume of FDI inflow. India can't have foreign investment coming in from MNCs by overruling *Supreme Court* judgments and proposing laws backdated to tax investors. To recapitulate the factors which limit the growth of FDI in India are:

- **(i)** Inefficient and poor quality of infrastructural facilities,
- **(ii)** Slow decision-making process,
- **(iii)** Outdated laws and their inefficient implementation,
- **(iv)** Weak credibility of regulatory system,
- **(v)** Conflicting role of various agencies of government,
- **(vi)** Bureaucratic procedures,
- **(vii)** Corruption and red tape-ism, etc.

Geographically speaking, destinations matter because in which states FDI is going is an important aspect of attraction for the investors. According to *Ila Patnaik*, "in India, we have tied ourselves up in knots. Even at a time when the country needs capital inflows, it is not easy for the government to move at the required speed. The *U.K. Sinha* committee on capital controls documented the complex maze of capital controls that has taken the power of switching controls on and off, depending on the need of the hour, away from the government and into the hands of a number of financial regulators. But it is equally important that the system of controls now be re-examined and rationalized keeping in mind the objectives they serve".

Policy measures required to remove hurdles: At the outset, the *World Investment Report* (WIR) asserts that '*simply opening an economy is no longer enough. There is a need to develop attractive configurations of locational advantages by capitalizing on the synergy of endowments of factors of production*'. *There is the urgent need to improve the macro-economic and organizational framework 'so that the FDI policy looks more coherent'. 'The pace of improvement in infrastructure should be hastened to convert intent into action in a global market where everybody is out to woo investors. Bold and proactive moves, embedded in reality and governed with a will to improve the economic environment of the country are needed to bring about radical changes*'. The government must strive to set up a single body for dealing with FDI matters in order to clear the confusion of foreign investors.

India should not ignore the importance of regulatory framework. The FDI policy should focus on '*maximization of its contribution to India's development, rather than maximization of the* *magnitude of inflows by itself*'. The problem before the nation is not whether foreign capital should be welcome, but whether a project can be cleared, from A to Z, in a short period. Given this backdrop, policymakers need to realise that merely liberalising sectoral caps for FDI across more and more sectors will not bring in more capital. Foreign entrepreneurs, just like their domestic counterparts, are driven primarily by *return on investment* (ROI) considerations. And to make India an attractive destination for them, sector regulators need to delivering better governance with less government.

Much needs to be done in order to make India an attractive destination for foreign investment. India requires reforms both in legal and administrative processes, then FDI, which is a real long-term capital will on its own find way to India. FDI does not flow merely from desirable economic policies, it also requires desirable political actions. The insurmountable problem is to bring in the desirable change in the mind set of India's policy-makers. The formulation of an effective strategy mainly requires a vision of development, coherence and coordination between its different objectives. What India urgently needs is to have a pro-active policy to attract more FDI. Unfortunately, *the infrastructure, be it power, ports, roads or civil aviation, continues to be pathetic*.

The fetters must go as India needs inflow of capital that is accompanied by technology and business expertise. It is high time for India to have an *Investment Promotion Agency* (IPA) which will work to promote the country as an investment destination, targets investors and provides after-care service in a holistic manner. Currently these functions are dispersed in different government bodies. The investment commission (IC) could be an effective IPA by undertaking primarily five functions: (a) *policy advocacy*, (b) *image-making*, (c) *investment promotion, including Investor targeting*, (d) *after-care of the investors*, and (e) *networking*, both globally and within the country with state level IPAs. It is better to have a negative list and open up all the other sectors for foreign investment. For a country of India's size the magnitude of the foreign investments cannot and will not be a cure-all, a panacea for all the problems. "It is neither a necessary nor a sufficient condition for India's development. But, if judiciously treated, it could be a handy aid in this process".

6. Appraisal of Trends and Impact on Indian Economy

After discussing policy, trends, and obstacles being faced by the foreign investors, it is worthwhile to have an overview of the impact on Indian economy. India has liberalised her FDI policy regime considerably since 1991. The FDI inflows into India have an increasing trend in the post liberalisation regime. It has also been accompanied by change in the sectoral composition, sources, and entry modes of FDI. The increasing recognition of India's locations advantages in knowledge-based industries among MNCs has also led to increasing investment by them in software development and in global R&D centres set up in India to exploit these advantages.

The most visible impact of FDI in India is in the manufacturing sector in *expanding the range of products like cars, two-wheelers, consumer durables, food products and apparel.* In the case of services sector the entry of *banks, insurance companies, global management consultancies and accountancy firms are important examples.* The contribution of foreign capital is notable in the direction of creating positive externalities in the country. The entry of *Hyundai Motors* illustrates that it has created considerable new investment, added to upgrading of the auto ancillary industry and exported large volumes which are very significant. FDI is largely attracted to consumer goods production. It is not possible to generalize the impact of foreign investment because effects vary over periods of time by industry and even by company. Economic benefits of FDI are generally difficult to measure with precision. For having a correct perspective on impact, it would be better to have a deeper, case by case, sector by sector, state by state study of FDI flows. For reaping positive contribution from foreign investment one should look at the following:

(i) Investment should facilitate India's penetration into world markets and MNCs firms must ensure exports and boost India's competitiveness;

(ii) India needs the best technology for producing precision instruments, armaments, life-savings drugs and in general for all exportable goods,

(iii) For achieving essential technology transfer in '*high-tech*' fields, besides equity participation, India should have a policy-package to acquire foreign technologies through the route of joint ventures, licensing technical and service contracts, etc;

(iv) The know how that the foreign investments bring in must percolate down to indigenous producers; and

(v) FDI can be useful only if it is well coordinated, monitored and tailored so as to fit into an investment process that leads to growth in country's national income and employment generation.

The government has a long haul ahead in cleaning up the investment environment. Domestic investment has to lead the way, not foreign investment keeping in mind FDI was under 8% of total investment in the country. FDI inflows may not give any boost to the government's ambitious '*Make in India*' campaign. The disaggregated data on FDI inflow indicates a much different picture compared to the general perception. *Foreign investors are more concerned about decision making, transparency, consistency and corruption, and unless the government can tackle these, foreign jaunts will remain just foreign jaunts*. One way to create a better image of India as a business location will be to introduce stability in the system. "FDI strategy is an art not a science. Strategy has to suit the particular conditions of the country at the particular times and evolve as its needs change and its competitive position in the world alters". Whether or not it achieves its potential will be powerfully influenced by how the Indian government manages its business policy environment. While the quantity of FDI is important, equally important is the quality of FDI. However, it is good to remember that '*foreign capital is a good servant, but a bad master'*.

7. Summary

- The Government of India recognises the important role that foreign direct investment plays in accelerating economic growth in India.
- Portfolio investors do not have as an objective any long-term relationship. Return on the assets is the main determinant for the purchase or sale of their securities.
- Prior to 1991, India adopted a regime that was perceived to be restrictive towards FDI.
- Explicit curbs on foreign investment were imposed through the introduction of the Foreign Exchange Regulation Act (FERA) in 1973 by restricting foreign ownership of shares in enterprises incorporated in India.
- After 1991 liberal foreign investment policy was allowed which brought with it a radical shift in the policy towards FDI.
- FDI up to 100% is allowed under the *automatic route* without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.
- FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the Foreign Investment Promotion Board (FIPB).
- The stock of FDI in India increased substantially after the process of economic liberalisation gained momentum.
- The increased inflows have been characterised by a sharp change in their sectoral composition.
- An important aspect of the inflows is the prominence of Mauritius for routing foreign capital to India, because an important and well-recognised dimension of India's FDI inflows is the fact of foreign investors' extensive use of recognised tax havens for entry into India.
- The sluggish trends in FDI flows could be the result of certain institutional factors that dampened the investors' sentiments.
- Inhibiting factors for FDI usually cited include: (i) bureaucratic procedures, (ii) slow decision-making, (iii) corruption, and (iv) Poor infrastructure.
- The country needed to make every effort to lure more FDI. What works in other countries may not work in India.
- On the whole, however, foreign capital in large economy like India, is neither a panacea for all ailments, nor a menace to sovereignty.