FOREIGN DIRECT INVESTMENT IN INDIA : A SECTORAL ANALYSIS

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This article seeks to identify those sectors of the Indian economy which have emerged as attractive destinations for foreign direct investment. Specifically, it highlights the prospects and opportunities offered by these sectors for investment by present and potential foreign investors. It also examines the government's policy regarding foreign investment in these sectors.

I. INTRODUCTION

Investment in a country by individuals and organisations from other countries is an important aspect of international finance. This flow of international finance may take the form of portfolio investment (acquisition of securities) or direct investment (creation of productive facilities).

Foreign Direct Investment (FDI) is the outcome of the mutual interests of multinational firms and host countries. According to the International Monetary Fund, FDI is defined as "investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise" (IMF,1977). It should not be confused with portfolio investment, which does not seek management control, but is motivated by profit. Portfolio investment occurs when individual investors invest, mostly through stockbrokers, in stocks of foreign companies in foreign land in search of profit opportunities.

The wave of liberalisation and globalisation sweeping across the world has opened many national markets for international business. Global private investment, in most part, is now made by transnational corporations (TNCs) also referred to as multinational corporations (MNCs). Clearly, these transnational organisations play a major role in world trade and investments because of their demonstrated management skills, technology, financial resources and related advantages. Recent developments in the global market are indicative of the rapidly growing international business (presently accounting for one-third of the total global output) in terms of both market size and geographical diversification(Pradhan,2000). The end of the twentieth century has already marked a tremendous growth of international investments, trade and financial

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transactions along with the integration and openness of international markets.

A recent United Nations report has revealed that FDI flows are less volatile than portfolio flows. To quote, "FDI flows to developing and transition economies in 1998 declined by about 5 per cent from the peak in 1997, a modest reduction in relation to the effects on other capital flows of the spread of the Asian financial crisis to global proportions. FDI flows are generally much less volatile than portfolio flows. The decline was modest in all regions, even in the Asian economies most affected by the financial crisis" (UN, 1999)

Favourable Effects of FDI

Private foreign investment, mostly by multinational corporations, is an important form of international flow of financial resources. According to UNCTAD, "Of about $ 2,000 billion of net capital inflow in developing countries during 1990-1998, more than $ 700 billion have been direct investment"(UNCTAD, 1999). Foreign investment takes place for private gain but it has the following potential benefits for less developed countries (LDCs).

- Foreign investment can fill the gap between desired investment and locally mobilised savings. Local capital markets are often not well developed. Thus, they cannot meet the capital requirements for large investment projects. Besides, access to the hard currency needed to purchase investment goods not available locally can be difficult. FDI solves both these problems at once as it is a direct source of external capital. It can fill the gap between desired foreign exchange requirements and those derived from net export earnings.
- Foreign investment can supply a package of needed resources such as management experience, entrepreneurial abilities, organisational and technological skills. Foreign investment brings with it technological knowledge while transferring machinery and equipment to developing countries. Production units in developing countries use outdated equipment and techniques that can reduce the productivity of workers and lead to the production of goods of a lower standard. The ability of domestic producers to compete abroad for export markets is reduced which, in turn, contributes to the difficulties of the developing countries to earn hard currencies. FDI can solve this problem because investment goods generally embody advanced technology.
- Foreign investment can create employment in the modern sectors of developing countries.
- It can benefit consumers in LDCs through lower prices/improved quality of goods and through new products.
- Foreign investment can stimulate domestic investment through

forward and backward linkages. For example, output of a foreign firm can be an input of domestic industries. Similarly, output of the domestic industries can be inputs for the foreign firms. If this is so, foreign firms create demand for industries producing goods purchased by them.,

Potential Pitfalls of FDI

Foreign private investment is not an unmixed blessing. Governments of LDCs have to be very careful while deciding the magnitude, pattern and conditions of private foreign investment. The adverse implications of foreign investment are the following:

- When foreign investment is competitive with home investment, the profits in domestic industries fall, leading to fall in domestic savings.
- Contribution of foreign firms to public revenue through corporate taxes is considerably less because of liberal tax concessions, excessive investment allowances, disguised public subsidies and tariff protection provided by the host government.
- Foreign firms reinforce dualistic socio-economic structure and increase income inequalities. They create a small number of highly paid modern sector executives. They divert resources away from priority sectors to the manufacture of sophisticated products for the consumption of local elite. As they are located in urban areas, they create imbalance between rural and urban opportunities, accelerating flow of rural population to urban areas.
- Foreign firms stimulate inappropriate consumption patterns through excessive advertising and monopolistic/oligopolistic market power. The products made by multinationals for the domestic markets behind tariff walls are not necessarily low in price and high in quality. Their technology is generally capital-intensive which does not suit the needs of a labour-surplus economy.
- Foreign firms are able to extract sizeable economic and political concessions from competing governments of LDCs. These concessions may take the form of excessive protection, tax rebates and investment allowances. Consequently, private profits of these companies may exceed social benefits.
- Continual outflow of profits is too large in many cases, putting pressure on foreign exchange reserves. Foreign investors are very particular about profit repatriation facilities.

Determinants of FDI

To understand the scale and direction of FDI flows, it is necessary to identify their major determinants, especially the factors influencing the destination of investment, i.e. the host-country determinants(see Lucas,1993; Marr, 1997; Schneider and Frey, 1985;Singh and Jun, 1995).

Size of the Market : Large countries provide substantial markets where the consumer demand for certain goods has been largely unfilled to date. This potential has been a draw for many of the initial foreign-owned operations in these countries. This explains the massive FDI flows which the large size of China's market has attracted since early 1980s. In many cases, the establishment of a low cost marketing operation represents the first step by a multinational into the market of the country. This establishes a presence in the market and provides important insights into the ways of doing business and possible opportunities in the country.

Uncertainty : In many countries, the institutions of government are still evolving and there are unsettled political questions. Companies are unwilling to contribute large amounts of capital into an environment where some of the basic political questions have not yet been resolved. Holland and Owens (1996) remarked thus: "One of the greatest negative factors inhibiting FDI is the uncertainty that surrounds doing business in a region....It is for this reason that companies may establish small operations initially, in order to gather the necessary information for a full assessment of the risks and opportunities of doing business".

Macroeconomic Environment : Instability in the level of prices and the exchange rate makes business planning difficult and increases the level of uncertainty. This increases the perceived risk of making investments and so adversely affects the inflow of FDI.

Legal and Regulatory Framework: The transition towards a market economy entails the establishment of a legal and regulatory framework that is compatible with private sector activities and the operation of foreign-owned companies. The areas of importance in this field include protection of property rights, ability to repatriate profits, and a free market for currency exchange. It is important that these rules and their related administrative procedures are transparent and easily comprehensible.

Access to Basic Inputs: FDI can be attracted by a country through the easy availability of factors of production. Many developing countries have large reserves of skilled and semi-skilled workers that are available for employment at wages significantly lower than in developed countries. This provides an opportunity for foreign firms to make investments in these countries to cater to the export market. Availability of natural resources such as oil and gas, minerals and forestry products also determine the extent of FDI.

Objectives, Methodology and Limitations

It is in this backdrop that this paper seeks to identify those sectors of the

Indian economy which have emerged as attractive destinations for foreign direct investment. Specifically, it attempts to shed light on the prospects and opportunities offered by these sectors for investment by present and potential foreign investors. It also analyses the policy of the Government regarding foreign investment in these sectors.

The study relies primarily on data and information as available in the publications of the Government of India and its agencies, and international organisations.

The study is descriptive and analytical in nature and normative at places. However, it does not attempt any empirical work.

The sectoral analysis undertaken does not constitute an exhaustive list of all sectors of the Indian economy. The study focusses attention on a limited number of promising sectors.

II. FDI IN INDIA: POLICY INITIATIVES

Since 1991, the Government of India has embarked on a liberalisation and economic reforms programme with a view to bring about rapid and substantial economic growth and move towards globalisation of the economy. The new policies have substantially relaxed restrictions on foreign investment, industrial licensing and foreign exchange. Capital market has been opened to foreign investment and banking sector controls have been eased. RBI(1998-99, p.IV-8)) maintained thus : "The Government is committed to promoting increased flow of Foreign Direct Investment (FDI) for better technology, modernisation, exports and for providing products and services of international standards. Therefore, the policy of the Government has been aimed at encouraging foreign investment, particularly in core infrastructure sectors so as to supplement national efforts".

As a part of major initiatives to attract foreign investment, measures have been initiated to ènter into agreements to provide for promotion and protection of investment. India has become a member of Multilateral Investment Guarantee Agency (MIGA). Full subscription and membership rights have become operative from January, 1994. As a consequence, all investments approved by Government are insured against expropriation/nationalisation by MIGA. Bilateral Investment Promotion and Protection Agreements have been signed with 46 countries including principal FDI investors such as the UK, Germany, Malaysia and Denmark. Others are in the process of being finalised.

Creating Congenial Environment for FDI

In order to attract· foreign investment and to promote domestic entrepreneurial private activities, the Government of Prime Minister Mr. Narsimha Rao announced a new industrial policy in the Indian Parliament on July 24, 1991. The new policy introduced radical changes "to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls". Some of the provisions of the new policy, which has already proved a watershed in the post-Independence history of India, are the following:

Industrial Policy Reforms

The 1991 Industrial Policy abolished industrial licenses for all projects, except for a short list of 18 specified industries related to security and strategic areas, social reasons, hazardous chemicals, environmental reasons, and items of elitist consumption.

After further pruning of the list, presently there are only six industries under compulsory industrial licensing. These are:

- Distillation and brewing of alcoholic drinks.
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
- Electronic aerospace and defence equipment, all types.
- Industrial explosives including detonating fuses, safety fuses, gun-powder, nitrocellulose and matches.
- Hazardous chemicals.
- Drugs and pharmaceuticals (bulk drugs industry has been delicensed) (*Ibid.*,p.IV-8).

The new industrial policy removed the asset limits for MRTP totally. The MRTP Act is now used for controlling and regulating monopolistic, restrictive, and unfair trade practices. The MRTP Commission was given powers to initiate investigations *suo moto* or on complaints received from individual consumers or classes of consumers about monopolistic, restrictive, and unfair trade practices.

It raised the limit for foreign equity holding from 40 per cent to 51 per cent. The automatic clearance for direct foreign investment up to 51 per cent in high priority areas was a clear signal that the foreign investment was welcome. The new policy also announced automatic permission for foreign technology agreements in high priority industries. Moreover, the policy made liberal provisions for hiring foreign technicians, and foreign testing of indigenously developed technology.

With a view to raise resources and ensure wider participation, the new policy announced disinvestment in public sector undertakings in favour of mutual funds, financial institutions, workers, and the general public. While reservation of industries for the public sector was retained, there would be no bar for opening such areas to the private sector selectively.

The July 1991 policy statement reduced the list of industries reserved for public sector from 17 included in the Industrial

Policy Resolution of 1956 to only 8. Subsequently, 4 more items were dereserved. Thus, at present there are only four industries reserved for the public sector. These are: 1. Arms and ammunition and allied items of defence equipment, defence aircraft and warships; 2. Atomic energy; 3. The substances specified in the schedule to the Notification Number S.O. 212 (E) dated March 15, 1995 of the Government of India in the Department of Atomic Energy; and 4. Railway transport (*ibid.*, p.IV-8).

Financial Sector Reforms

Considering the strategic importance of the financial sector, the Government set up a Committee on Financial System in 1991 under the chairmanship of Mr. M. Narasimham. It was asked to examine all aspects relating to the structure, organisation, functions and procedures of the financial system. The Committee submitted its report in November 1991.

Based on the recommendations of the Narasimham Committee Report, banking sector has been opened for the private sector and presently ten private banks are in business. Joint ventures in banking have also been permitted.

An efficient capital market is an important constituent of a sound financial system. Efforts have been made to set up an effective regulatory framework covering major participants in the capital market. Similarly, the technology of trading and settlements in the stock exchanges has been upgraded. The Securities and Exchange Board of India (SEBI) has permitted internet-based securities trading. Foreign institutional investors and pension funds were allowed to enter the Indian stock market from 1993 onwards.

Life insurance business in India was nationalised in 1956 and since then the public sector Life Insurance Corporation has enjoyed monopoly in this field. People in general have all along been grumbling against LIC's monopolistic exploitation, poor service and high premium rates. Same was the case with general insurance business which was also monopolised by the Government. The public sector monopoly of insurance business was ended with the enactment of the Insurance Regulatory and Development Act, 1999. The insurance sector is now open to private sector participants and it can be expected that service to the consumer will improve.

Tax Reforms

In August 1991, the Government of India constituted a Tax Reforms Committee (TRC) to recommend a comprehensive reform of both direct and indirect tax laws. The report of the Committee contained recommendations for restructuring and rationalisation of personal income tax, corporate income tax, wealth tax, excise duties, import tariff, tax administration and enforcement machinery. Based on the overall direction prescribed by the TRC, tax reforms introduced by the Government since mid-1991 are geared "to build a structure which is simple, relies on moderate tax rates but with a wider base and better enforcement"(Government of India, 1995-96, p.17).

External Sector Reforms

Prior to mid-1991, foreign trade of India suffered from strict bureaucratic and discretionary controls. However, the new Government which took over at the Centre in June 1991 soon realised that India's foreign trade policy must respond to the changes (liberalisation and openness) sweeping across the world. To reduce controls, simplify procedures and to create a congenial environment for trade, the Government made a Statement on Trade Policy in Parliament on August 13, 1991, ushering a new era in the foreign trade policy of India. Instead of controls and regulations, the focus shifted to promotion and development of foreign trade.

In India, about 99 per cent of customs revenue is derived from import duties which are levied on a wide range of commodities. Radical reforms have been introduced in the Indian customs tariff between 1991 and 2000. These reforms were necessary because the customs tariff had become, over the years, very complicated in terms of multiple rates, innumerable exemptions, excessive controls, and elaborate procedures. These infirmities of the customs tariff often led to delays, harassment, corruption, and litigation. Moreover, rationalisation and simplification of the customs duties was needed to move towards a market economy, freedom of trade, and opening up the Indian economy to the outside world.

With the liberalisation of foreign trade, exchange rate has assumed added significance. Presently, there is almost full convertibility on the current account and partial convertibility on the capital account. By and large, a floating exchange rate regime has been introduced. However, Government agencies do intervene occasionally to soften excessive fluctuations in currency rates.

As a part of India's external economic policy, capital account convertibility has remained a controversial issue for quite sometime. Justifiably, Indian Government has been very cautious in this regard, particularly after the disastrous experience of some East Asian countries. It is true that globalisation has led to financial integration in world markets and presently large amounts of capital move freely across countries. However, volatility of these flows must be properly understood before taking decisions regarding convertibility of capital account. India has successfully avoided the trap so far and policy makers must remain cautious as regards capital account convertibility[1].

III. ROUTES FOR FDI FLOW

FDI can be approved either through the Automatic Route or by the Government.

Automatic Route

Companies proposing foreign

investment under the automatic route do not require any government approval, provided the proposed foreign equity is within the specified ceiling and the requisite documents are filed with the Reserve Bank of India (RBI) within 30 days of receipt of funds. The automatic route encompasses all proposals:

(a) where the foreign investment in the equity capital of the Indian Company is up to 50/51/74/100 per cent as the case may be as applicable to the list of high priority industries/items given in Annexure III[2]; and

(b) where the proposed items(s)of manufacture/activity does not require an Industrial Licence and is not reserved for the Small Scale Sector.

The above is also applicable for existing companies wishing to raise foreign equity up to 50/51/74/100 per cent, as the case may be. If the equity is proposed as part of an expansion programme, the expansion programme must be in the high priority industries listed in Annexure III. When the increase in equity is not proposed for purposes of an expansion, the company must be predominantly engaged in the high priority industries listed in Annexure 3.

The automatic route for FDI and /or technology collaboration would not be available to those who have or had any previous joint venture on technology transfer /trade mark agreement in the same or allied field in India.

Government Approval

For the following categories, government approval for FDI though the FIPB would be necessary:

(a) proposals attracting compulsory licensing.

(b) items of manufacture reserved for the small scale sector.

(c) acquisition of existing shares.

(d) foreign investment proposals where the parameters for automatic approval are not met and the company has to notify the same to SIA (Secretariat for Industrial Assistance) within 30 days of receipt of funds as also allotment of shares.

(e) in case of infusion of foreign equity by a company without changing the percentage of equity that has already been approved by the Government and where the original project cost was up to Rs. 600 crore, no prior approval of FIPB/ Government is required. The company has to notify the same to SIA within 30 days of receipt of funds as also allotment of shares.

Foreign Investment Promotion Board (FIPB)

The FIPB is especially empowered to engage in purposive negotiation and also consider proposals in totality free from predetermined parameters on procedures. Industry Secretary is the Chairman of FIPB. The Finance Secretary, Commerce Secretary and Secretary(Economic Relations), Ministry of External Affairs are the other members of the FIPB.

The approach of FIPB is liberal for all sectors and all types of proposals. The totality of package proposed is examined and approved on merits within a period of thirty days. RBI has granted general permission under Foreign Exchange Regulation Act (FERA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to notify the Regional Office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and to file the required document with the concerned Regional Offices of the RBI within 30 days after issue of shares to the foreign investors.

Foreign Investment Promotion Council

The Government has recently constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Industry. It has been set up to have more target oriented approach towards foreign direct investment promotion. Its functions are to identify the sector/project within the country requiring foreign direct investment and target specific regions/counties of the world from where FDI will be brought through.

The relative importance of different channels of entry of FDI flows into the country can be seen from Table 1.

Table 1: FDI Inflows in India by Different Routes: 1991 to 1999 (US $ billion)

Foreign Direct Investment	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999
1. RBI automatic route	42	89	171	169	135	202	179
2. SIA/FIPB route	222	280	701	1249	1922	2754	1821
3. NRI schemes	51	217	442	715	639	241	62
Total	315	586	1314	2133	2696	3197	2062

Source: Government of India, Ministry of Finance, *Economic Survey*, 1999-2000, p.100, Table 6.7 (excerpted).

The automatic approval route of the RBI was introduced to facilitate FDI inflows. However, during the post-policy period the actual investment flows through the automatic route of the RBI against total FDI flows has been quite insignificant. While FDI flows through the automatic route accounted for 15.18% of the total FDI inflows in 1993-94, its share has declined since then and was only 8.68% in 1998-99. This is partly due to the fact that crucial areas like electronics, sèrvices and minerals are left out of the automatic approval route. Another limitation has been the ceiling of 51% on foreign equity holding. An increasing number of proposals were cleared through the FIPB route while the automatic approval route has been declining in the relative importance since 1994.

IV. FDI FLOWS TO DEVELOPING COUNTRIES: INDIA'S SHARE

Available data suggest that the share of India in FDI flows to developing countries is meagre. In 1998, India accounted for 1.2 per cent (2,258 million US$ out of 183,449 million US$) of total FDI flows to developing countries (Table 2). While the growth of FDI inflows to India has been fairly satisfactory, India's share in the global FDI regime is still minuscule.

Table 2 : FDI Flows to Developing Countries in 1998 (US $ million)

S.No.	Country	FDI flow	% of total
1.	China	45,460	24.8
2.	Brazil	28,718	15.7
3.	Mexico	10,238	5.6
4.	Thailand	6,969	3.8
5.	Argentina	5,697	3.1
6.	Korea	5,143	2.8
7.	Poland	5,129	2.8
8.	Chile	4,792	2.6
9.	Venezuela	3,737	2.0
10.	Malaysia	3,727	2.0
11.	Colombia	2,983	1.6
12.	Czech Republic	2,540	1.4
13.	India	2,258	1.2

Source: Reserve Bank of India, *Report on Currency and Finance*, 1998-99, p. X-11.

Reasons for Low Flows

According to a recent study, "India's neighbours that are relying heavily on FDI, such as China, Indonesia, Malaysia, and Thailand, have been pulling far ahead in economic growth, income levels, and productivity, while also increasing their security and geopolitical influence. India's continuing ambivalence on FDI, as a result, exacts a heavy toll on the economy. Undoubtedly, India is ceding billions of dollars of FDI to its neighbours each year. While China achieved actual FDI inflows of around $ 45.3 billion in 1997, India settled for a mere $3.2 billion"(Bajpai and Sachs, 2000).

The reasons for low inflows are attributable to a host of factors such as procedural disputes regarding land availability, environmental clearance, delays at State level in getting power and other infrastructural back up. These bottlenecks result in delays in the commencement of many projects. Moreover, sizeable investment flows are concentrated in the infrastructure industries, like power, refineries, telecom etc. where gestation period is long and projects take time to materialise.

Approvals and Actual Inflows

In a direct response to the liberal policy measures introduced by the Government since 1991,'foreign direct investment in India has increased progressively in the post reform period both in terms of approvals and actual inflows. Table 3 shows the trends in approvals of FDI proposals vis-à-vis inflows. Approvals of foreign investment increased from US$ 325 million in 1991 to US$ 6,975 million in 1998. They aggregated to a total of US$ 55,111 million in the post liberalisation period, i.e. 1991 to 1998.

Table 3 : FDI in India: Approvals and Actual Inflows

	1991	1992	1993	1994	1995	1996	1997	1998
Approvals								
Rs. crore	739	5256	11189	13590	37489	39453	57149	28783
US$ million	325	1781	3559	4332	11245	11142	15752	6975
Actual Inflows								
Rs. crore	351	675	1786	3009	6720	8431	12085	9116
US$ million	155	233	574	958	2100	2383	3330	2230
Actual flows as % of approvals (in US $ terms	47.7	13.1	16.1	22.1	18.7	21.4	21.1	32.0

Source: Government of India, Ministry of Finance, *Economic Survey*, 1999-2000, p. 101, Table 6.8.

The actual inflow of foreign direct investment increased from US$ 155 million in 1991 to US$ 2,230 million in 1998. Cumulative inflows up to 1998 amounted to US$ 11,963 million. Actual inflows as a proportion of approvals have ranged between 13% and 22%. This proportion improved from 13.1% in 1992 to 32% in 1998.

V. SECTORAL ANALYSIS

The Indian Government has placed special emphasis on drawing foreign investment into sectors which are perceived to be of high priority for the following reasons:

- Need for rapid development.
- Volume of investment required.
- Importance for overall economic growth and employment.
- Comparative advantages in terms of human or natural resources.

Table 4 indicates the industry-wise break-up of FDI flows from January 1991 to June 2000. The table includes only some of the promising sectors in which the FDI approvals have been substantial in the past or which offer good potential for future investments.

Table 4 : Sector-wise Break-up of Foreign Direct Investment and Technical Collaboration Approved During 1.8.91-31.6.2000 (Rs. million)

S. No.	Name of industry	No. of approvals			Amount of FDI approved	% of the amount of FDI approved
		Total	Technical	Financial		
1.	**Fuels**					
	Power	277	23	254	389466.52	17.37
	Oil refinery	328	164	164	236392.66	10.54
	Others (fuels)	130	44	86	33067.14	1.47
	Total	735	231	504	658926.32	29.38
2.	**Telecommunications**					
	Telecommunications	309	98	211	91323.17	4.07
	Radio paging	50	4	46	12308.95	0.55
	Cellular mobile/ Basic	177	10	167	260045.30	11.59
	Telephone service	86	3	83	11821.61	0.53
	Others	23	2	21	7508.53	0.33
	Total	645	117	528	383007.56	17.08

Table 4 Contd.

S. No. Name of industry	No. of approvals			Amount of FDI approved	% of the amount of FDI approved
	Total	Technical	Financial		
3. **Service Sector**					
Financial	333	8	325	101923.06	4.54
Non-financial services	314	20	294	31159.11	1.39
Banking services	23	-	23	1783.53	0.08
Hospital and diagnostic centres	85	13	72	6517.99	0.29
Other services	31	4	27	8313.10	0.37
Total	786	45	741	149696.79	6.67
4. **Food Processing Industries**					
Food products	678	122	556	85788.26	3.82
Marine products		91	71	921.66	0.04
Miscellaneous	6	-	6	118.31	0.01
Total	775	142	633	86828.23	3.87
5. **Transportation industry**					
Automobile industry	698	384	314	42633.12	1.90
Air/Sea transport	148	16	123	24504.55	1.09
Passenger cars	57	5	52	72001.96	3.21
Auto ancillaries	160	78	82	20530.21	0.92
Ports	16	-	16	12494.50	0.56
Others	105	31	74	8107.78	0.36
Total	1184	514	670	180272.12	8.04

Table 4 Contd.

S. No.	Name of Industry	No. of approvals			Amount of FDI approved	% of the amount of FDI approved
		Total	Technical	Financial		
6.	**Hotels and Tourism**					
	Hotel and restaurants	340	122	218	35437.87	1.58
	Tourism	70	16	54	7659.72	0.34
	Others	12	3	9	377.48	0.02
	Total	422	141	281	43475.07	1.94
7.	**Metallurgy**					
	Ferrous	362	214	148	73756.51	3.29
	Non-ferrous	63	30	33	7718.62	0.34
	Special alloys	81	51	30	8288.71	0.37
	Mining service	46	12	34	41423.68	1.85
	Misc. (Other items)	68	26	42	11827.53	0.53
	Total	620	333	287	143015.04	6.38
8.	**Electronics**					
	Electrical equipment	1506	846	660	52039.45	2.32
	Computer software industry	1325	74	1251	82457.19	3.68
	Electronics	423	143	280	27895.03	1.24
	Computer hardware	3	-	3	9.04	-
	Others	43	16	27	863.47	0.04
	Total	3300	1079	2221	163264.18	7.28

Source: SIA (Secretariat for Industrial Approval) Newsletter, 07/2000.

Industry-wise break up of the FDI flows from January 1991 to June 2000 indicates that the bulk of the foreign investment has been in the priority sector. Telecommunications and power have accounted for 34.46% of total approvals. Food processing and metallurgical industries have accounted for another 10.25%. Transportation industry, electrical equipment and services have taken up another 22% of the total approvals.

The sectoral composition of FDI approvals reveal that they can be broken up into three major compartments:

Special policy thrust and/or attractive incentives attract 45%

Telecommunications 17.08%

Power 17.38%

Oil refining 10.54%

Potential for high growth areas attract 29.33%

Automobiles and transportation 8.04%

Services 6.67%

Electronics software and electrical equipment 7.28%

Hotels and tourism 1.94%

Natural resource advantages draw 11.72%

Metallurgical Industries 6.38%

Food Processing 3.87%

The particular industrial sectors which have been identified as presenting tremendous opportunities for foreign investments are: power; hydro-carbons; telecommunications; electro-nics; mining & metallurgy; roads and highways; ports; tourism; services; automobiles; drugs and pharmaceuticals; food processing; textiles; and insurance.

Power

The power sector is India's top infrastructure priority. Shortage of power has been cited as one main problem of the economy and it is realised that the future is bleak unless enough power is generated for industrial and consumer use. That is precisely why the government accords top priority to foreign investment in this capital-intensive sector.

The main elements of the policy of the Government regarding private investment in the power sector are the following:

- Foreign investment in the power sector is actively encouraged and can take place either in the form of a joint venture with an Indian partner or as a fully-owned operation with 100% foreign equity. According to the new liberalised policy, foreign equity up to 100% in the field of electricity generation, transmission and distribution except in atomic reactor power plants can be held by a company through automatic route. However, foreign equity in projects under this category should not exceed Rs.15 billion.

- Companies may operate either as power distributor or generator companies.
- Power generation companies are required to supply to State Electricity Boards (SEBs) who in turn will distribute the power.
- Since the entry of private sector in the power generation, Central Electricity Authority (CEA) has accorded techno-economic clearance (TEC) to 56 private sector power projects amounting to around 28,849 MW (Government of India, 1999-2000, p153).
- A series of approvals are required for power projects. These include 'in principle' endorsement of a project followed by approvals of techno-feasibility reports, funding plans, clearance by environmental authorities, Foreign Investment Promotion Board etc.

Prospects and Opportunities

This sector offers the following prospects and opportunities to the potential investors.

- 100% foreign equity is permitted in this sector.
- Private power projects are based on a 16-18 per cent return on equity, and so their costs are high. Since they have to sell their power to the financially weak State Electricity Boards, there were concerns about whether the foreign investors would get their money back. To allay these fears, the Government provides guarantees to foreign investors in projects found viable.

According to *Economic Survey*, 1999-2000, "Issue of counter guarantee of Government of India has been approved on December 22,1999 for the Mangalore Thermal Power Project (1000 MW) of M/s. Cogentrix Energy Incidence in Karnataka and to the Ib Valley Thermal Power project (500 MW) of M/s. AES Ib Valley Corp. in Orissa" (*ibid.*, p.153).

- The World Bank has advised that the State Electricity Boards be restructured into smaller units. The bank has also recommended creation of smaller units for privatisation. This has been done in Greater Noida in north Indian state of Uttar Pradesh and the general mood is to do the same in parts of the country. These developments have made foreign investors confident of investing in India.
- Special incentive package including tax holiday, rationalised depreciation, reduced customs duty on equipment etc. has been devised.
- A blend of thermal, hydel and nuclear sources of energy are available. Non-conventional energy trom solar, wind and tidal sources are also encouraged.

Telecommunications

Telecommunications is a prime support service needed for rapid growth and modernisation. It is also one of the fastest growing sectors in India and has immense potential for growth. The telecommunication activity is commercial in nature and people are willing to pay for it. Abundant investment opportunities exist in areas of basic and cellular telephony, communication infrastructure, optic fibre cable, gateways, satellite based communications etc. The telecom sector has witnessed the presence of many leading foreign companies including US companies: AT&T, Motorola, US West, Hughes, Harris, Qualcomm, Sprint, Telstra, NTT, Singapore Telecom, Philippine Telecom, Bezeq, Siemens, Ericsson, Nokia, Fujitsu, Alcatel, and Bell Canada among others.

In order to modernise the telecom facilities in the country, the Government has announced a comprehensive policy for attracting private, including foreign investment in Value Added and Basic Services.

Value Added Services

The value added services were thrown open to private sector in 1992. The value added services, where private, including foreign investment is encouraged include: electronic mail, voice mail, data services, audio text services, video text services etc.

In view of the constraints in the number of companies that can be allowed to operate, a policy of selection through a system of tendering is followed, for the following value added services: radio paging, cellular mobile telephone, and Global Mobile Personal Communications by Satellite (GMPCs).

All foreign investment proposals in the above telecom services require licence from Department of Telecommunications (DOT) and approval of FIPB.

Basic Services

The private sector participation in the basic telecom services is guided by the National Telecom Policy, 1994. Basic services were opened to private participation in 1994 by dividing the country into 21 Telecom Circles and allowing one private operator per Circle to compete with DoT. Only companies registered in India will be permitted to participate in providing basic voice telephone services. In the case of a joint venture, foreign equity up to 49% would be permitted. However there will be no limit of foreign equity in the manufacturing sector. Six licences for basic services have been granted for six States. Two operators M/s. Bharati Telenet Ltd. in Madhya Pradesh, and Hughes Ispat Ltd. in Maharashtra have started providing services(Government of India, 1997-2002, p.869).

The Telecom Regulatory Authority of India (TRAI) , an autonomous body, has been set up as a regulatory authority to set standards, regulate prices, ensure technical compatibility among different service providers, fix access charges, protect consumer interest and resolve disputes between service providers.

Prospects and Opportunities

- India has a mere 1.2 telephones for every 100 of its people. This is way below international standards and is not becoming of a country aspiring to be a major player in the global economy of the 21st century. This means that opportunities for investment in this sector are immense.

- Basic voice services is the biggest market. As on 31.3 1997, the telecom network had 145.33 lakh Direct Exchange Lines (DELs), with a waiting list of 28.87 lakh. The demand is projected to grow to 360-380 lakh DELs by the year 2001-2002. Thus 186-237 lakh additional DELs would have to be provided by the Government and the private sector during the Ninth Plan. In this, almost 52 lakh DELs are envisaged to be the private sector's contribution(*ibid.*, pp.872-73).

- The cumulative investment up to the year 2001 to meet demand for cellular mobile and radio paging services is estimated at US$ 8 billion and US$ 1 billion respectively.

- Investment in other Value Added Services (VAS) up to 2001 are estimated at US$ 3.5 billion.

- The government cannot make investments of this magnitude because of resource limitations. The private sector and foreign companies are therefore welcomed into this sector, both as direct investors and exporters of equipment and technology.

- Provision of Internet services has been thrown open to domestic and foreign investors with effect from October 7, 1998. A new policy for Internet Service Providers (ISPs) was announced in 1998 allowing independent service providers to enter the sector ending the earlier monopoly of VSNL.

Drawbacks

The following drawbacks of this sector are noteworthy.

- VSAT (Very Small Aperture Terminal) services, though privatised, have not taken off in India. Demand for electronic mail, videoconferencing is not strong enough to justify investment. Besides, licence fees to be paid to the Department of Telecommunications are too high given the size of demand.

- The DoT retains its monopoly as of now as the main service provider of short and long distance basic services. Private operators have to obtain licenses from DoT and work with it on a revenue sharing basis. It has been agreed in principle that private companies will be allowed to establish their own gateways in addition to using the gateways of DoT, VSNL or authorised public/government organisations. But this concept will be put into practice only after security-related issues are looked into by a committee that has already been set up.

- Potential investors should be aware that telecom privatisation has been hit with snags. Cellular phone operators have been taken by unpleasant surprises. The average air-time use per subscriber per month is less than the estimates of both the bidders and the government. Each subscriber now spends an average of Rs.1,100 a month , but the industry needs a per subscriber expenditure of Rs. 1,800 every month to make commercial sense. This situation is building pressure to extend the licenses to 15 year periods as opposed to the current 10 years. The extension will bring in extra revenue which can help the private operators make some money for themselves and pass a part of it to the customer as well (given the intense competition among the private operators).
- One possibility is to charge a high monthly rental but low air-time charge. This may reduce the number of subscribers but those who subscribe will have a higher spending power. The profile of the cell-phone owner in India is therefore poised to change towards the better-off classes who can pay higher monthly rental and talk longer on cheaper air-time rates. This will drive out the lower middle classes from the cell-phone circuit, but middle-to-upper middle classes in India are huge enough to make commercial sense for the private operators.

Financial Services (Banking and Non-banking)

India has one of the most developed financial markets in the developing world. Tremendous scope exists for both banking and non-banking financial institutions from other countries. Top companies from the United Kingdom and the United States among others are already active in India's financial markets. Some of the foreign financial giants operating in India are: Merrill Lynch, Oppenheimer, J.P. Morgan, Morgan Stanley, Grindlays, Standard Chartered, Hong Kong and Shanghai Banking Corporation among others.

Banking Services

Foreign direct investment is permitted up to 20% and in the case of NRIs up to 40% in the banking sector. In case of shortfall in foreign equity contribution by NRIs, multilateral institutions are allowed to invest within the overall foreign equity of 40%.

Non-banking Financial Services

These include merchant banking, underwriting, portfolio management services, stock broking; asset management, venture capital funds, custodial services, factoring, leasing and finance, housing finance, credit and business etc.

The minimum capitalisation norms for these services are as follows:

- where FDI is less than 50%, US$ 0.5 million to be brought upfront.
- where FDI is greater than 50% but less than 75% , US$ 5 million to be brought upfront.
- where FDI is greater than 75% and less than or equal to 100%, US$ 50 million out of which US$ 7.5 million to be brought upfront and the balance in 24 months.

Prospects and Opportunities

- Considerable scope exists for providing modern and innovative service packages in the financial sector. The most promising subsectors of the financial services market are capital markets, venture banking, consumer financing, mutual funds, and infrastructure financing.
- India already has foreign exchange reserves of US$ 27 billion which is considered very comfortable, but the country needs to use foreign skills and networks to be able to manage the huge sums for its development needs.
- Local financial Institutions such as the Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Finance Corporation of India , Unit Trust of India and the Shipping Credit and Investment Corporation of India have raised billions through the most sophisticated financial instruments including Deep Discount Bonds.

Insurance

After much dithering, India has finally opened up the insurance sector to private and foreign investors. Foreign investment and access to foreign capital by domestic companies has been progressively liberalised in India. The insurance sector, nationalised since 1971, has been opened up according to an announcement made in November 1998.

The financial year 1999-2000 witnessed a most significant reform with far reaching implications for long-term savings. This relates to the Insurance Regulatory and Development Authority (IRDA) Bill passed by the Parliament in December, 1999 which, inter alia;

1. gives statutory status to the interim Insurance Regulatory Authority,
2. opens up the insurance sector to the private providers,
3. allows foreign equity in domestic insurance companies subject to a maximum of 26% of the total paid-up capital, and
4. stipulates minimum paid-up capital of Rs.100 crore each for compa-

nies in life insurance and general insurance(Government of India, 1999-2000, p.60).

The following facts show how underdeveloped the Indian insurance business is due to state monopoly and lack of aggressive marketing of insurance policies:

- Per capita insurance premium in India is a mere US$ 6, one of the lowest in the world. In South Korea, the corresponding figure is US$ 1,338.
- Insurance premium in India accounts for a mere 2 per cent of GDP (compared to the world average of 7.8 per cent).
- Insurance premium as a percentage of savings is barely 5.95 per cent in India (compared to 52.5 per cent in the UK).

The above figures show the huge scope that exists for new business in the insurance sector. Liberalisation will bring about strong marketing of policies by rival firms, which is expected to benefit the customer through a wider range of products and better services. Until now, policies have only been 'bought' by customers, rarely marketed by the insurance firms.

List of Indian companies entering insurance and their foreign partners

Indian company	Foreign partner
Tata Group	AIG Insurance
Godrej	Rothschild (UK)
DCM Shriram Consolidated	Royal and Sun Alliance (UK)
HDFC	Standard Life (UK)
Bombay Burmah Trading	General Accident (Scotland, UK)
Kotak Mahindra	Chub Insurance (US)
20th Century Finance	Canada Life Assurance (Canada)
Alpic Finance	Allianz Holding (Germany)
C.K. Birla Group	Zurich Insurance (Switzerland)
ICICI	Prudential (UK)
Hindustan Times	Commercial Union (UK)
Dabur	Liberty Mutual (UK)
Sanmar Group	GIO (Australia)
Indian company	**Foreign partner**
ITC	Eagle Star (UK)
Peerless	Guardian Royal Insurance (UK)
Sundaram Finance	Winterthur Ins (Switzerland)
M.A. Chidambaram Group	Metlife (UK)
Ranbaxy	Cigna (US)

Food Processing

From a starving nation in 1947 when it won political independence, India today is one of the world's major producers of foodgrains. However, India accounts for less than 1.5 per cent of international food trade. This indicates vast scope for both investors and exporters.

The industry requires massive investment over the coming years to create necessary infrastructure, expand production facilities and state-of-the-art-technology to match the international quality and standards.

The following points may be noted regarding the Government's policy towards foreign investment in this sector:

- Foreign direct investment of around US$ 1 billion has already been approved in India's food processing industry since 1991.
- Foreign investors can own 100 per cent equity in plants they set up. However, it is advisable to take a local partner. There has been some civilised resistance from ultra-nationalistic quarters of opinion to foreign food products. This resistance will be less if a local partner is involved.

Prospects and Opportunities

- Changing socio-economic conditions including breakdown of the joint-family system, increasing number of working women and Western influence (via TV channels) in the urban areas are fuelling a demand for packaged foods. The profile of the middle class is changing steadily and hired domestic help is becoming costlier. This is conducive to an expansion in demand for ready-to-eat Indian-style foods.
- India already has all the requirements for a head-start in the food-processing industry. Basic materials such as foodgrains, pulses, vegetables and meats (non-beef) can be sourced locally or easily imported if local availability is inadequate.
- India enjoys strong international competitiveness in fruit and vegetable based products as also marine products, thus providing high opportunities for exports of such items. In 1997-98, India exported processed fruits and vegetables worth US$ 173.5 million (RBI, 1999, p.162).
- Many Indian firms are eagerly seeking foreign partners for joint-ventures to avail of their technological advantage.
- Supermarkets are just beginning to appear in India's big cities and this is the time for international chains to acquire a foothold. Competition will only increase with time. International restaurant chains and foreign companies are being actively encouraged to enter the Indian food market for bringing

in state-of-the-art processing and packaging along with new products; backward integration of technology to improve raw material quality of farmers/livestock breeders; higher levels of sanitation and quality control; modern methods of mass marketing etc.

- India's liberal intelligentsia is gradually building the opinion that foreign investments in the processed food sector will benefit rural agriculture, thus beating the nationalists with their own slogans. The liberal Intelligentsia is gradually prevailing.

Promising Sub-sectors

The promising sub-sectors in the food processing industry for foreign direct investment include soft-drink bottling, confectionery manufacture, fishing, aquaculture, fish-processing, grain-milling and grain-based products, meat and poultry processing, alcoholic beverages, milk processing, tomato paste, snack food, fast-food, ready-to-eat breakfast cereals, ice-creams, refrigerated food handling, supermarkets, food additives, flavours etc.

The main sub-sectors along with the advantages offered by them are given below.

- A potential processed food product is *meat and poultry products.* India ranks first in world cattle population, and has 50 per cent of world buffalo population and one-sixth of world goat population. Buffalo meat is surplus in India. There is vast scope to set up modern slaughter facilities and cold store chains in meat and poultry processing sector. Compared with meat, poultry industry has registered significant growth. Both poultry and egg processing units have come in a very big way in the country. India is exporting egg powder, frozen egg yolk and albumin powder to Europe, Japan and other countries. Poultry exports are mostly to Maldives and Oman. Indian poultry meat products have good markets in Japan, Malaysia, Indonesia and Singapore.

- *Milk and milk products* is rated as one of the most promising sectors which deserves foreign investment in a big way. The total milk production is around 72 million tonnes and the demand for milk is estimated at around 80 million tonnes. Manufacture of casein and lactose, largely being imported presently, has good scope. Exports of milk products have been decanalised.

- *Grains* could emerge as a major export earner for India in coming years. India's food grains production is now at around 225-230 million tones. These include rice, jawar, bajra, maize, wheat, gram and pulses. Indian *basmati* rice enjoys command in the international market. Besides the growing Middle East market for basmati rice, many other countries are showing interest for this foodgrain. In 1997-98, export of *basmati* and non-*basmati* rice stood at US$ 907 million (*ibid.*, p.162).

- Among plantations, *tea* has emerged as major foreign exchange earner. India is the largest producer and exporter of black tea. India exported 210 million kilograms of tea in 1998(Government of India, 1999-2000, p.l35). Of course, the scope of foreign investment in this sector is good and the multinational tea companies would either be trying for marketing joint ventures with the Indian producers or acquire stakes in Indian tea companies. There is strong possibilities of third country exports through such joint venture as quality wise still Indian teas are ruling the international market.
- *Alcoholic beverages* is another area where India witnessed substantial foreign investment. Foreign invest-ment in this sector is about 70 percent of the total investment made so far. The IMFL (Indian Made Foreign Liquor) primarily comprises wine, vodka, gin, whisky, rum and brandy. Draught beer is a comparatively recent introduction in the Indian market. One of the major advantages for any investor eyeing the Indian liquor market is that India offers enough raw materials like molasses, barley, maize, potatoes, grapes, yeast and hops for the industry.
- Yet another catchy investment sector is *fisheries*. There is growing export of canned and processed fishes from India. The marine fish include prawns, shrimps, tuna, cuttlefish, squids, octopus, red snappers, ribbon fish, mackerel, lobsters, cat fish etc. In the past few years, there has been substantial foreign investment in fisheries. The potential could be gauged by the fact that against fish production potential in the Exclusive Economic Zone of 3.9 million tones, actual catch is to the tune of 2.87 million tones. Harvesting from inland sources is around 2.7 million tonnes. Fisheries sector has been recognised as a powerful income and employment generator, besides emerging as an important item in export trade. The value of export of marine products (including fish) during 1998-99 was Rs. 4,627 crore (*ibid.*, p.138).

Drawbacks

The biggest bottleneck in expanding the food processing sector, in terms of both investment and exports, is lack of adequate infrastructure. Without a strong and dependable cold chain vital sector like food processing industry which is based mostly on perishable products cannot survive and grow. Even at current level of production, farm produce valued at Rs 70,000 million is being wasted every year only because there is no adequate storage, transportation, cold chain facilities and other infrastructure supports. Cold chain facilities are miserably inadequate to meet the increasing production of various perishable products like milk, fruits, vegetables, poultry, fisheries etc.

Transportation Industry

The transportation industry includes the automobile industry, air and sea transport, passenger cars, auto ancillaries or parts, ports etc.

Automobile Industry

India's automotive components industry is the most lucrative sector for foreign direct investments. Hundreds of collaboration foreign direct invest-ments have been made in recent years and there is tremendous potential for more. Markets are huge and growing both within India and overseas. The Automotive Components Manufacturers Association (ACMA) represents this sector in India.

Prospects and Opportunities

- India offers a relatively low cost production base and is strategically positioned as a launching base for third country export to Asia-Pacific and European markets.
- Growth in road transport, increasing urbanisation and privatisation of public transport will translate into growing demand for commercial vehicles.
- The market is worth US$ 2.3 billion at present and this is expected to touch US$ 9.4 billion in 2001.
- India has added advantage of an extensively segmented market and a well-developed dealer network.
- Growth of consumer finance, leasing and hire-purchase options for vehicle dealers and buyers also boost demand.
- A well developed components industry offers opportunities for sourcing. The scope is vast for foreign collaborations to produce branded models stressing on emission standards, fuel efficiency, advanced features and contemporary styles.
- Automotive components manufactured in India are of top quality and used as original components for vehicles made by such top international companies as General Motors, Mercedes, IVECO and Daewoo among others.
- Japanese and British component manufacturers are already operating joint-ventures in India. American companies which have, or are planning to, set up plants in India include Delphi (an automotive components division of General Motors USA), Delco Electronics, Textron and Magna International of Canada.

Roads and Highways

Massive investments are envisaged in widening and/or strengthening existing highways, reconstructing/ widening bridges, constructing expressways, upgradation initiatives especially in high density corridors. The following points are noteworthy regarding the policy of the Government.

- The National Highway Act, 1956 was amended in June 1995 to provide for a legal framework for private sector participation in road development(Government of India, 1997-2002,p.801).
- Private sector including foreign equity participation up to 100% in the highways is envisaged under Build Operate and Transfer (BOT) concept.
- Automatic approval of foreign equity up to 74% for construction and maintenance of rail beds non-vehicular bridges, non-vehicular tunnels, rope ways and run ways and up to 100% for construction and maintenance of roads, highways, vehicular bridges, Govt. roads, vehicular tunnels, subject to foreign equity not exceeding Rs. 15 billion .

Prospects and Opportunities

- Investments worth an estimated US$ 34 billion is needed till 2005-06 for the development of National and State Highways. Out of this, the requirement of private sector investment is US$ 8.3 billion.
- To encourage private sector participation, a Model Concession Agreement for major projects costing more than Rs. 100 crore has been finalised to be undertaken under BOT Scheme. Another Model Concession Agreement for projects less than Rs. 100 crore has also been finalised by Ministry of Surface Transport. To date, projects involving an investment of around Rs. 1000 crore have already been taken under the BOT scheme(Government of India, 1999-2000), p.157).
- Projects relating to bypasses, bridges, and four laning of existing sections of National Highways, which on the basis of traffic density are financially viable and bankable, would be taken up through private sector participation(Government of India, 1997-2002, p.801).
- Land acquisition, preliminary project preparation and operation of facilities will be undertaken by government free of cost and free of encumbrances.
- Incentives include tax holidays, reduced custom duties on construction equipment etc.

Ports and Shipping

Government has initiated various steps to expand the infrastructural and management base of the key ports of the country. In order to encourage private sector including foreign equity participation in development of port facilities, policies and procedures have been significantly liberalised.

Following areas have been identified for private sector participation and investment:

- Leasing out existing assets of the port,

- Construction/creation of additional assets, such as:
  - (a) Construction and operation of container terminals.
  - (b) Construction and operation of bulk, break bulk, multipurpose and specialised cargo berths.
  - (c) Warehousing, container freight stations, storage facilities and tank farms.
  - (d) Cranage/handling equipment.
  - (e) Setting up of captive power plants.
  - (f) Dry docking and ship repair facilities.
- Leasing of equipment for port handling and leasing of floating crafts from the private sector.
- Pilotage.
- Captive facilities for port based industries(*ibid.*, p.816-17).

Foreign equity participation up to 100% is allowed for BOT Projects. Automatic approval up to 74% foreign equity for construction and maintenance of ports and harbours has been allowed.

The shipping, ship building and ship repair sectors offer a number of incentives and opportunities to investors. Facilities at par with 100% Export Oriented Units (EOUs) are also available for the ship repair industry.

Prospects and Opportunities

- Significant potential exists for expansion of infrastructural and management base of key ports.
- Considerable scope exists for construction, operation and maintenance of container terminals, cargo handling terminals, dry docking and ship repair facilities.
- Opportunities also in areas of warehousing and storage, floating crafts, cranage services, dredging and general maintenance.
- Options available for private participation include leave of assets and equipments; management contract for running port facilities or providing services; leasing of well-defined activities/services; transfer of ownership to private parties.
- The Government has already awarded the project for construction, management, and maintenance of two berths container terminal on BOT basis at Jawahar Lal Nehru Port (JNPT) to a consortium headed by an Australian firm.

Air Taxi Operation

The policy envisages encouraging private sector participation in air taxi operations. Foreign equity participation up to 40% and 100% NRI equity are allowed subject to the approval of FIPB. No direct or indirect equity participation by foreign airlines is allowed . However, foreign equity up to 74% has been allowed in the airport infrastructure under the automatic apporoval rou'e.

Following are guidelines for air taxi operations:

- Air taxi operators shall be air carriers engaged in air transportation of persons, their baggage and cargo.
- Operations by the air taxi operators shall, except on routes not covered by any scheduled operator where an air taxi operator shall have the option to sell tickets to individual passengers and where prior permission of DGCA for each flight will not be necessary, be charter and/or non-scheduled operations. It shall be necessary to obtain authorisation from the Director General of Civil Aviation (DGCA) for each individual flight and tickets will be sold to individual passengers.
- Air taxi operations shall not be permitted to destinations outside India.

Mining and Metallurgy

The metallurgical and mineral industries constitute the bedrock of industrial sector as they provide the basic raw materials for most of the industries. India is well endowed with minerals of 84 types - 4 fuel based, 11 metallic, 49 non-metallic and 20 minor minerals. Due to the rich resource base, considerable scope exists for foreign and domestic private investment in mining and metallurgy for commercial exploitation of these resources.

The policy of the Government regarding private investment in this sector has the following salient features.

- The Mines and Minerals (Regulation and Development) Act, 1957 was amended in January 1994 and a new Mineral Policy was announced. With this, the mining sector was thrown open to the private sector including foreign direct investment.
- Foreign equity up to 50% in the mining sector would be automatic, except for gold, silver, and precious stones.
- Foreign equity up to 74% in the mining services viz. shafting, reclamation of mines, surveys etc. would be automatic.
- Foreign equity holding in excess of automatic holding will require prior approval of the FIPB. Foreign investment in the mining of gold, silver, diamond, and precious stones will also require approval of the FIPB.

Prospects and Opportunities

- Existence of high quality geological database makes exploration a low risk investment proposition.
- Scope also exists for activities such as modernisation/optimisation of operations, revamping/ retrofitting of equipments, technology upgradation etc. that will help secure higher recoveries and extraction, facilitate value addition and sustain higher production levels.

- India is endowed with huge reserves of bituminous coal of Paleozoic and Tertiary ages within the Coalbed methane (CBM) window at depths of nearly 250-1200 metres. India wants foreign and domestic private companies for the exploration and commercial exploitation of CBM resources at some of the underground coal mines.
- The mining lease period has been increased to a maximum of 30 years and a minimum of 20 years to provide greater stability of tenure to leaseholders. The prospecting period has also been increased from 2 to 3 years and further renewal up to a period not exceeding 5 years is allowed to facilitate more systematic and scientific prospecting and exploration for mineral deposits.

Hotels and Tourism

Economic liberalisation has given a new impetus to the hospitality industry. Many foreign companies have already tied up with prominent indian companies for setting up new hotels, motels and holiday resorts. The entry of McDonald's, Pepsico's Kentucky Fried Chicken, Domino's and Pizza Hut have given an international glitz to the hospitality sector.

The term *hotels* includes, *inter alia*, restaurants, beach resorts and other tourist complexes providing accommodation and /or catering and food facilities to tourists. The term *tourism related industry* includes, *inter alia*, the following:

- Travel agencies, tour operating agencies and tourist transport operating agencies.
- Units providing facilities for cultural or wildlife experience and adventure to tourists.
- Surface, air and water transport facilities for tourists.
- Leisure, entertainment, amusement, sports and health unit for tourists.
- Convention/seminar units and organisations.

Over the years, tourism has emerged as a major segment of the Indian economy contributing substantially to the foreign exchange earnings which have increased from Rs.4,892 crore in 1991-92 to Rs. 10,417 crore in 1996-97.

Foreign investment up to 51% equity for establishing Hotels and Tourism Related Industries can be made through automatic route. Foreign investment above 51% equity will require approval of Govt. (FIPB).

Prospects and Opportunities

- The Indian hospitality industry is growing at a rate of 15 percent annually. The current gap between supply and demand is expected to widen further as the economy opens and grows. The government forecasts an additional requirement of 200,000 rooms by the turn of the century.
- Several international chains including Sheraton, Holiday Inn, Inter-

continental, Hyatt, Radisson, Best Western, Days Inn, Hilton, Quality Inn, Ramada Inn, Meridien, Kempenski, Four Seasons Regent, Accor, and Marriott International are entering or expanding their hotel network in India.

- A rapidly growing middle class, the advent of corporate incentive travel and the multinational companies into India has boosted prospects for tourism. India's easy visa rules, public freedoms and its many attractions as an ancient civilisation makes tourism development easier than in many other countries.
- There is scope for development of tourism related services like travel and tour operating agencies, transportation and other services providing leisure, entertainment, sports and health units, convention facilities etc.
- Incentives include interest and capital subsidies, tax exemption, special foreign exchange facilities, concessional duties on imports of capital equipment etc.
- There is availability of trained manpower for the development of a service sector like hotels and tourism. At present, there are 20 Institutes of Hotel Management and Catering Technology and 13 Foodcraft Institutions functioning in the country. A number of institutes have also started coming up in private sector since it can find adequate number of trainees with the required paying capacity.

Electronics

The electronics industry constitute 7.28% of the total approved investment in the post-liberalisation period. It includes electrical equipment, computer software industry, electronics, computer hardware etc. The present low level of penetration provides tremendous potential for immediate market expansion in almost every segment of electronics.

Prospects and Opportunities

- Consumer electronics is a high growth sector which also has an active replacement market.
- Control and industrial electronics face increasing demand from projects in power, refineries, petrochemicals, cement etc. Demand for test and measuring instruments will be growing with the rapid development of communications.
- A strong base exists for the manufacture of micro-computers, mini-computers and mainframe computer system; work stations and other manufactured products like floppy disk drivers, printers, CRT terminals, keyboards and plotters.
- In the software area, India has the third largest pool of software writing talent with world-class skills and at relatively low cost, thus, providing tremendous outsourcing opportunities.
- The electronic component sector provides opportunities for joint

ventures and contract manufacturing activities in areas like semiconductors, ICs, chip capacitors, PCBs etc.

- The policy provides foreign equity participation up to 100% and several incentives/concessions for EOUs, EHTPs and STPs.
- A high powered National Task Force on IT and Software Development was set up by the Prime Minister's Office on May 22, 1998, under the Chairmanship of the Deputy Chairman of Planning Commission. The first report of the taskforce on IT Action Plan has brought about a new paradigm in setting up IT software and hardware manufacturing units for making them viable for meeting the local demands as well as exports by creating a policy ambience and investment climate in the country comparable to those in Taiwan, Malaysia, and Singapore.

VI. CONCLUSION

The initial policy stimulus to foreign direct investment in India came in July 1991 when the new industrial policy provided, *inter alia*, automatic approval for projects with foreign equity participation up to 51 per cent in high priority areas. In recent years, the Government has initiated the second generation reforms under which measures have been taken to further facilitate and broaden the base of foreign direct investment in India. The policy for FDI allows freedom of location, choice of technology, repatriation of capital and dividends. As a result of these measures, there has been a strong surge of international interest in the Indian economy. The rate at which foreign direct investment inflow has grown during the post-liberalisation period is a clear indication that India is fast emerging as an attractive destination for overseas investors.

In spite of the fact that India is a strategic location with access to a vast domestic and South Asian market, its share in world's total flow of direct investment to developing countries is a meagre 1.5 per cent. This calls for further liberalisation of norms for investment by present and prospective foreign entrepreneurs. Attracting foreign capital requires an investor-friendly environment. It underlines the need for efficient and adequate infrastructural facilities, availability of skilled and semi-skilled labour force, business-friendly public administration and moderate rates of taxation.

A disquieting trend has been noticed in recent years that a sizeable amount of FDI is used for acquiring Indian companies rather than creating new productive assets. This has involved only a change of ownership of the existing assets without adding to the productive capacity of the economy. This tendency needs to be discouraged. FDI becomes meaningful only when new capacities are created in the economy or the existing capacities are made more efficient and competitive.

Notes

1. It is noteworthy that East Asian crisis was not the result of liberalised foreign trade policies and foreign direct investments. It was clearly attributable to unbridled short-term capital inflows.

2. For a detailed list of high priority industries, see Annexure III of the Industrial Policy Statement (July 24, 1991) of the Government of India.

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