

FOREIGN DIRECT INVESTMENTS (FDI)

Foreign direct investment (FDI) is a measure of foreign ownership of productive assets, such as factories, mines and land. Increasing foreign investment can be used as one measure of growing economic globalization.

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to a yearly average of less than \$20 billion in the 1980's, to explode in the 1990s from \$26.7 billion in 1990 to \$179 billion in 1998 and \$53414 million in 2009

FOREIGN DIRECT INVESTMENT IN INDIAN SENARIO

India has among the most liberal and transparent policies on FDI among the emerging economies. FDI up to 100% is allowed under the automatic route in all activities/sectors.

Most of the sectors fall under the automatic route for FDI. In these sectors, investment could be made without approval of the central government. In few sectors, FDI is not allowed.

SECTOR SPECIFIC FDI LIMITS:

100% FDI allowed in following sectors:

- Hotel & Tourism.
- Power.
- Drugs & Pharmaceuticals.
- Pollution Control and Management.
- Call centres & Business Process Outsourcing.

- Projects for Construction & Maintenance.
- Mass Rapid Metro Transit System.
- Refining.

Restricted Sectors:

- Insurance - 26%
- Aviation - 74% (Airports) Domestic Airlines- 49%
- Private sector Banking - 74%
- Telecommunication
 - Basic cellular services - 74%
 - ISP's with gateways up to 74% (Above 49% FIPB)
 - ISP's, E mails, Voice mails - 100% (Disinvestment of 26%)
- Trading - 100%
 - Exports
 - Bulk imports
 - Cash & carry
 - Other activities - 51 % (Automatic)
- E-commerce - 100% (Disinvestment of 26%)
- Mining - 100%
 - Except diamonds & precious stones - 74%

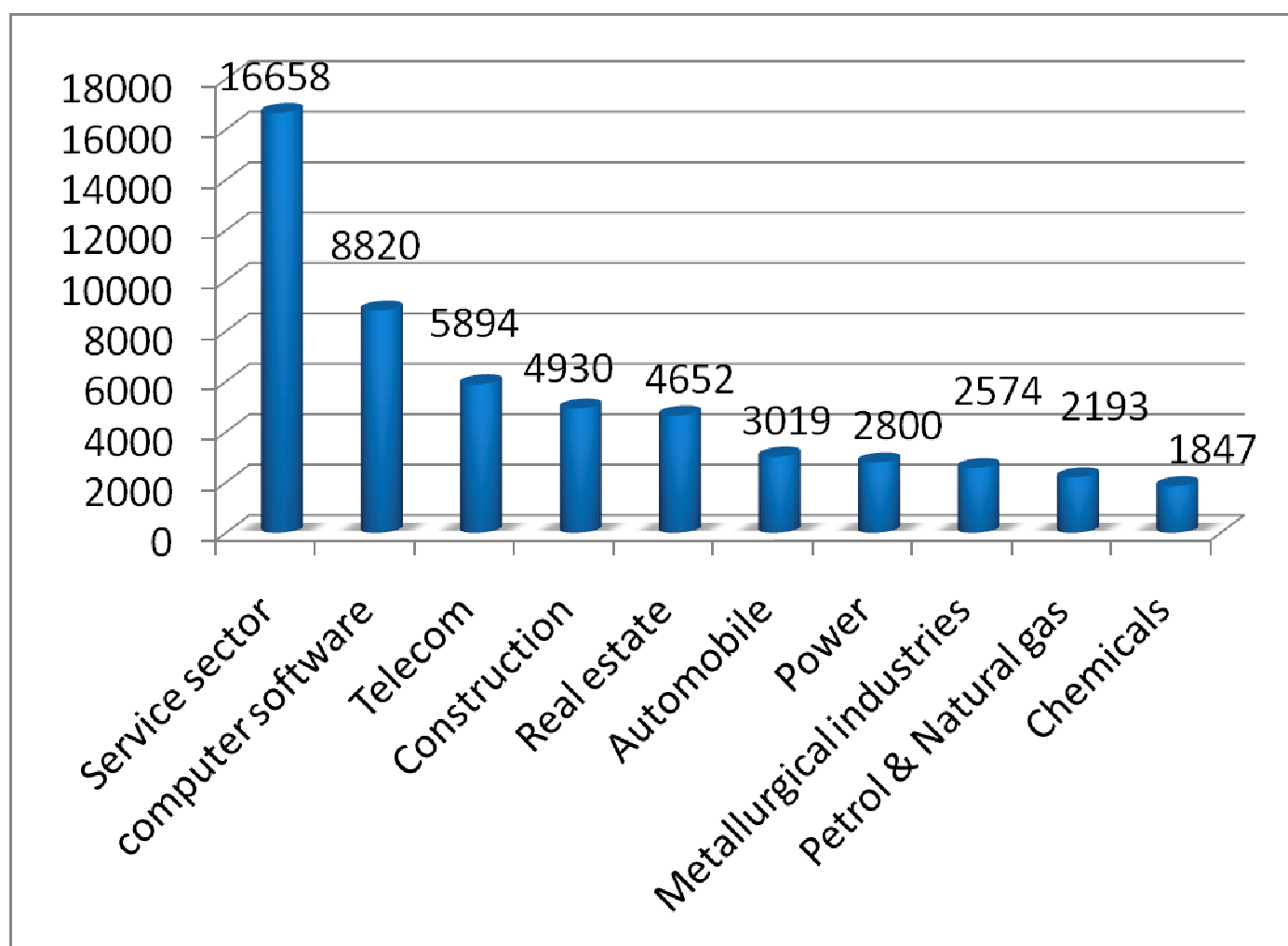
Despite the global recession and liquidity crunch, Indian economy registered 11% rise in FDI in 2008-09 with sectors like Chemicals and Telecommunication have recorded the robust growth of 227% and 103%,

Maharashtra, Gujarat, Karnataka, New Delhi, Tamil Nadu and Andhra Pradesh emerged as top six states which together attracted about 81 per cent of total FDI during FY '09.

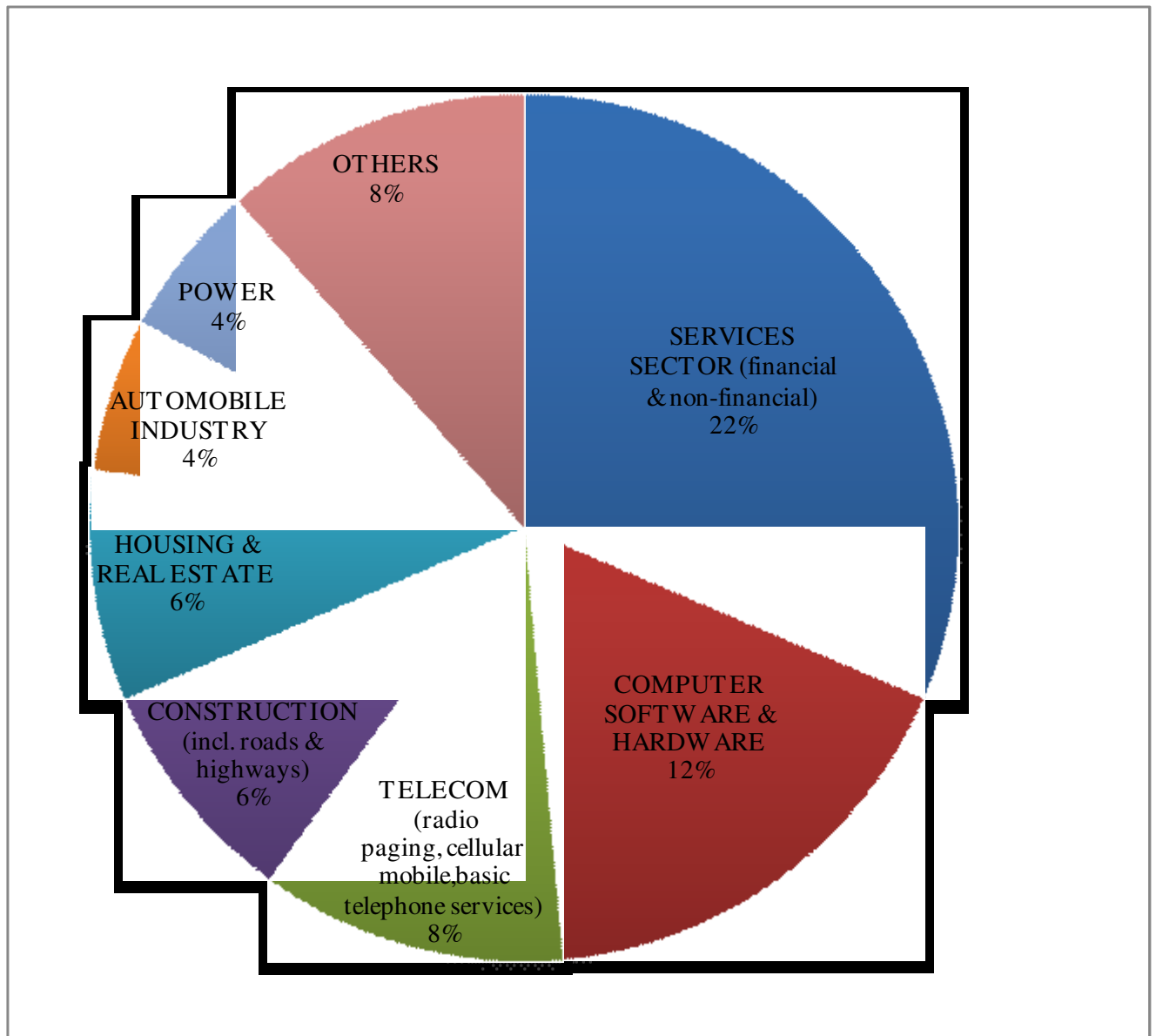
Maharashtra has emerged as the top state in attracting highest inflows of foreign direct investment (FDI) during the financial year 2008-09

SECTOR WISE COMPARISON

(cumulative inflows from 2000-2008 in US\$ mn)



SECTOR WISE FDI INFLOW IN % TERMS:



SOURCE: FINANCIAL TIMES

K.HITHACHARAN RAJU BE, FINAL YEAR MBA,
DSCMIT