INDIA: FOREIGN DIRECT INVESTMENT TRENDS AND POLICY

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At a Glance

- Global Foreign Direct Investment (FDI) inflows were of the order of US$ 2 trillion in 2007, before the onset of financial crisis, when they declined to around US$ 1.2 trillion by 2009.
- The decline was particularly sharp in the developed countries, where the FDI inflows halved from over US$ 1.3 trillion in 2007 to around US$ 650 billion in 2009.
- Global FDI inflows remained in the range of US$ 1.4 trillion and 1.7 trillion between 2010 and 2019 except for two years viz. 2015 and 2016 when the FDI inflows were close to US$ 2 trillion.
- There was a significant decline in FDI inflows in 2020 when these inflows declined to US$ 999 billion, mainly owing to lockdowns in different countries on account of COVID-19 pandemic that slowed down investment activities.
- Prior to the global financial crisis, i.e. during the years 2005-07, developed countries received nearly two-thirds of the total world-wide FDI inflows. Developing countries received around 30 per cent, while transition economies accounted for about 3-4 per cent.
- Post financial crisis, i.e. from 2010 to 2020, FDI inflows to developed countries on average accounted for about 53 per cent of the total global FDI inflows. The share of developing countries increased to 43 per cent while that of transition economies continued to be in the range of 3-4 per cent
- Global FDI rebounded in 2021, to 1.65 trillion. This was largely due to increase in developed economies (almost 200%). Flows to developing economies increased by a comparatively modest 30%. (Source: *UNCTAD: Investment Trends Monitor, January 2022*).
- In 2020, India was among the top 5 recipients of FDI in the World at number 5, up from 8th position in 2019. In 2019-20, India received nearly US$ 50 billion worth of FDI equity inflows. These inflows further increased to nearly US$ 60 billion in the year 2020-21. Gross inflows reached their highest ever at US $ 81973 Million in 2020-21, Net Inflows (US $ 43955 Million) were also at their highest level in 2020-21.
- Flows to India declined in 2021 by 26% on the back of lower M & A deals. (Source: *UNCTAD: Investment Trends Monitor, January 2022*).
- FDI inflows as a percentage of GDP has ranged from 1.6% in 2009 to 3.6% in 2019.

- The highest number of announced green field projects in India was in the year 2008 with 1016 projects announced. In 2020 the number had declined to 401 projects. The highest value of announced greenfield projects was also in the year 2008 (US $ 65 billion). In 2020 the value of projects had declined to US $ 24 billion.
- In Cross Border Merger & Acquisitions India saw an increase of almost 100% from $ 14.9 Billion in 2019 to $ 27 Billion in 2020, although this was below the 2018 value of $ 33 Billion.
- The top 5 sources for FDI in India (April 2000 – March 2021) are Mauritius, Singapore, USA, Netherlands & Japan
- The top 5 contributors for FDI in India in 2020-21 are Singapore, US, Mauritius, UAE & Saudi Arabia
- Small economies like Mauritius and Singapore have contributed disproportionately large sums to India's FDI equity inflows. Other small economies like Cyprus and Cayman Islands are among the top 10 contributors to India’s FDI.
- Main 5 destination sectors for FDI in India are the Services sector, Computer software & hardware, telecommunications, Trading & Construction development. This is keeping in line with the predominance of the services sector in India's GDP.
- In 2020-21, the two sectors that have seen a significant increase are computer services and the transport sector. Computer services has risen from less than 10% of FDI to around 44% in 2020-21. The combined share of computer services and the transport sector is 58%.
- There have been significant changes in India’s approach to attracting foreign investment since early 1990s when it began the reforms process.
- The government has taken a number of measures in order to attract foreign investment into India including opening up a large number of sectors to foreign investment where it was not permitted earlier, raising the permissible limit of foreign investment into different sectors, tax incentives, introduction of Automatic Route and Government approval route and bringing in more sectors under more liberalised automatic route

Background

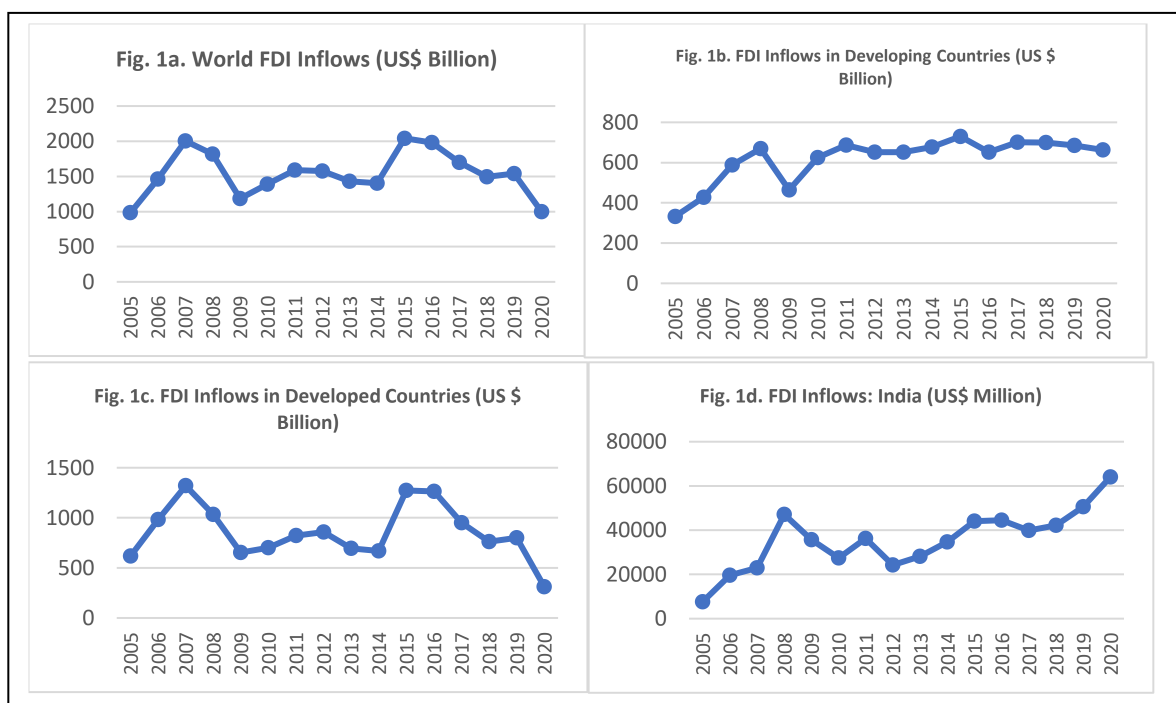
In the recent years foreign direct investment (FDI) has been playing an important role in the economic development of many nations. FDI is known to be stable component of capital flows which helps in financing current account deficit. It also adds to investible resources, provides access to advanced technology, helps in promoting exports, etc. It is expected to contribute to modernisation of plant and machinery, employment generation, transfer of technology, better management practices & human capital formation, etc. In order to attract higher levels of FDI into the country, the Government of India, in the recent years, has liberalised FDI policy. Under the new policy, FDI inflows upto 100% are permitted under Automatic route in a large number of sectors. The aim of the policy is to ensure that India remains an attractive destination for FDI inflows. Consequently, India has benefitted from significant FDI flows, receiving equity flows worth US$ 530 billion in 21 years, starting April 2000 till end March 2021, with nearly 60% of FDI inflows coming in from 2014-15.

Global FDI Inflows

Global FDI inflows were of the order of US$ 2 trillion in 2007, before the onset of financial crisis. Following the crisis, they declined to around US$ 1.2 trillion by 2009. The decline was particularly sharp in the developed countries, where the FDI inflows halved from over US$ 1.3 trillion in 2007 to around US$ 650 billion in 2009. Global FDI inflows remained in the range of US$ 1.4 trillion and 1.7 trillion between 2010 and 2019 except for two years viz. 2015 and 2016 when the FDI inflows were close to US$ 2 trillion (Table 1). There was a significant decline in FDI inflows in 2020 when these inflows declined to US$ 999 billion, mainly owing to lockdowns in different countries on account of COVID-19 pandemic that slowed down investment activities. The decline was particularly sharp in developed countries. In fact, it was only for the second time since 2005 that the FDI inflows into the developed countries were lower than those to the developing countries.

Table 1: FDI Inflows (US $ billion)				
Year	**World**	**Developed**	**Developing**	**Transition Economies**
2005	983	619	332	32
2006	1463	982	427	54
2007	2003	1320	589	93
2008	1819	1032	669	118
2009	1186	652	464	70
2010	1389	700	625	64
2011	1591	824	687	79
2012	1575	858	652	65
2013	1431	695	652	84
2014	1404	670	677	57
2015	2042	1274	730	37
2016	1983	1265	652	66
2017	1700	950	701	50
2018	1495	761	699	35
2019	1540	800	685	55
2020	999	312	663	24
Source: World Investment Report, Various Issues				

Prior to the global financial crisis, i.e. during the years 2005-07, developed countries received nearly two-thirds of the total world-wide FDI inflows. Developing countries received around 30 per cent, while transition economies accounted for about 3-4 per cent. Post financial crisis, i.e. from 2010 to 2020, FDI inflows to developed countries on average accounted for about 53 per cent of the total global FDI inflows. The share of developing countries increased to 43 per cent while that of transition economies continued to be in the range of 3-4 per cent. It may be



noted that the FDI inflows to developing have been remarkably stable between 2010 and 2020 (ranging between US$ 625 billion and US$ 730 billion), while those in developed economies, there have been wide variations in these inflows (ranging between US$ 312 billion and US$ 1274 billion). As a result, the coefficient of variation (which measures the dispersion around the mean) of FDI equity inflows for developing economies is much lower (0.04) vis-à-vis that of the advanced economies (0.31) for this period.

Table 2 gives FDI inflows to selected countries over 15 years period between 2005 and 2020. It may be noted that in keeping with the global trends, FDI inflows declined in most countries in 2020, the exceptions being some Asian countries.

Table 2: FDI Inflows to Selected Countries (US $ billion)

	2005	**2010**	**2015**	**2020**
France	85.0	13.9	45.4	17.9
Germany	42.0	65.6	30.5	35.7
UK	177.9	59.0	39.2	19.7
USA	104.8	198.0	467.6	156.3
Australia	(-) 35.3	36.4	29.6	20.1
Japan	2.8	1.3	3.0	10.3
China	72.4	114.7	135.6	149.3
Hong Kong China	33.6	70.5	174.4	119.3
Singapore	13.9	55.1	59.7	90.6
India	7.6	27.4	44.1	64.1
Brazil	15.1	48.5	50.0	24.8
Russia	12.9	43.2	11.9	9.7

Source: World Investment Report, Various Issues

For the years under consideration, these 12 countries accounted for close to half of the total global FDI inflows, except for the year 2020, when the share of these countries was nearly 72 per cent of the total worldwide FDI inflows. In 2020, FDI inflows declined sharply in France, UK, USA, Australia, Hong-Kong (China), Brazil and Russia as compared to 2015. On the other hand, they increased in Germany, Japan, China, Singapore and India.

In 2020, India was among the top 5 recipients of FDI in the World at number 5, up from 8th position in 2019. In 2019-20, India received nearly US$ 50 billion worth of FDI equity inflows. These inflows further increased to nearly US$ 60 billion in the year 2020-21 (Table 3).

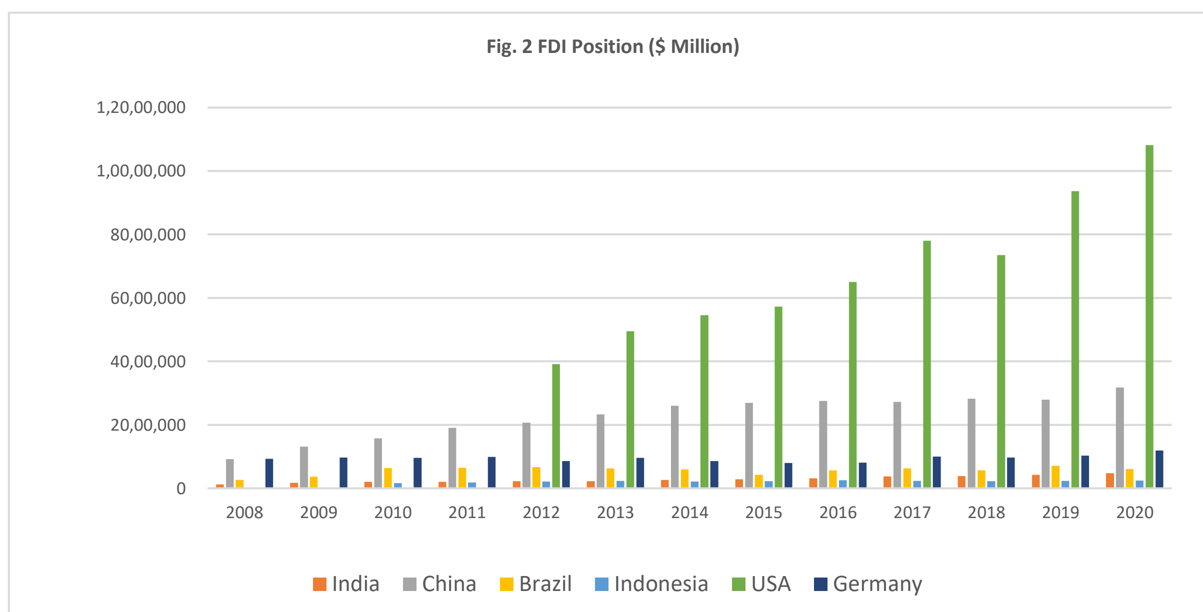


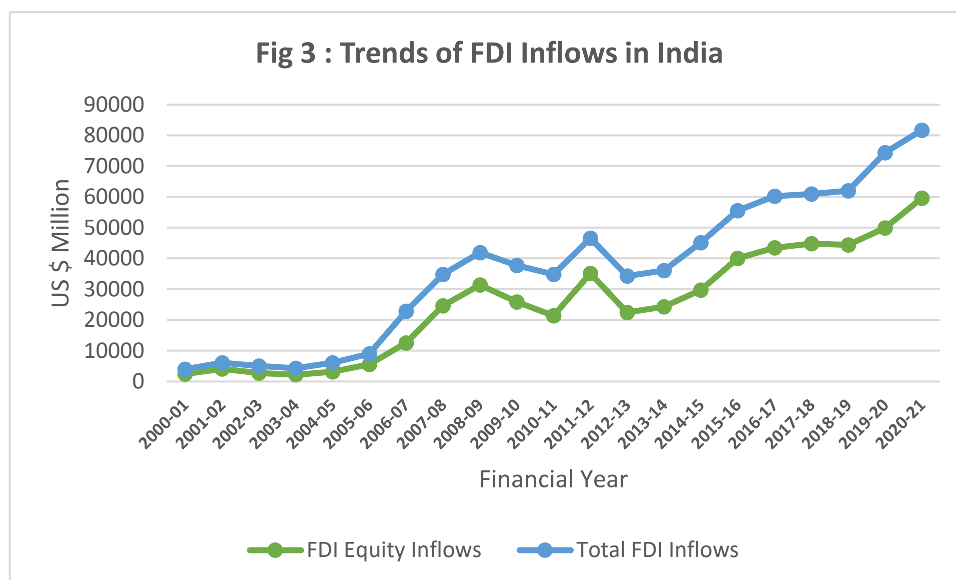
Table 3: Trends of FDI Inflows in India

Year/s	FDI Equity Inflows	Total FDI Inflows	**Year/s**	FDI Equity Inflows	Total FDI Inflows
	US $ million	US $ million		US $ million	US $ million
1991-2000	15483		**2010-11**	21383	34847
2000-01	2463	4029	**2011-12**	35121	46556
2001-02	4065	6130	**2012-13**	22423	34298
2002-03	2705	5035	**2013-14**	24299	36046
2003-04	2188	4322	**2014-15**	29737	45148
2004-05	3219	6051	**2015-16**	40001	55559
2005-06	5540	8961	**2016-17**	43478	60220
2006-07	12492	22826	**2017-18**	44857	60974
2007-08	24575	34843	**2018-19**	44366	62001
2008-09	31396	41873	**2019-20**	49977	74390
2009-10	25834	37745	**2020-21**	59633	81722

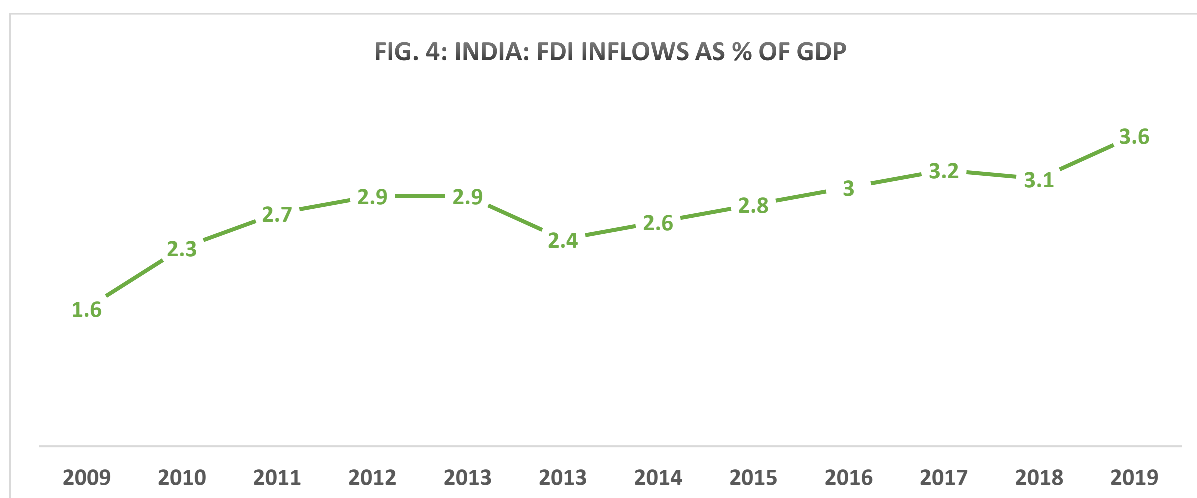
Source: Factsheet on FDI, DIPP

The years 2006-07 and 2007-08 witnessed a quantum jump in the FDI inflows when the FDI equity inflows more than quadrupled within two years from US$ 5.5 billion in 2005-06 to US$ 24.6 billion in 2007-08. FDI inflows averaged around US$ 27 billion annually between 2007-08 and 2014-15, increasing from an average of US$ 4.7 billion per annum during the period

2000-01 to 2006-07. Another break came in the year 2015-16 when the FDI equity inflows exceeded US$ 40 billion for the first time and gradually increased to around US$ 60 billion within 5 years, i.e. by 2020-21. These trends can be seen in Figure 3.



Of the total FDI equity inflows of nearly US$ 530 billion received by the country between April 2000 and March 2021, nearly three-fifths came in from 2014-15 onwards. Another salient feature of FDI equity inflows into India has been that these flows have generally risen year after year in the post 2014-15 period, while in the period prior to 2013-14, fluctuations have been observed in the annual FDI equity inflows into the country. These trends could be said to reflect increasing confidence of the foreign investors in India's economic performance in the last few years as well as in the policies of the government in attracting foreign investment. This is also evident in the increasing percentage of FDI inflows as % of GDP (Figure 4).



Source: OECD International Direct Investment Statistics

Global FDI rebounded in 2021, by an estimated 77% to US$ 1.65 trillion as compared to 2020. This was largely due to increase in Developed economies (almost 200%). Flows to developing economies increased by a comparatively modest 30%. Flows to India declined in this period by 26% on the back of lower M & A deals. (Source: *UNCTAD: Investment Trends Monitor, January 2022*).

The following sections discuss this trend in greater detail.

Repatriation / Disinvestment of FDI

Repatriation/ Disinvestment showed a quantum increase in the year 2009-10. Once again, it showed an increasing trend from 2016-17, reaching an all-time high of US $ 27 billion in 2020-21. In 2020-21, around 30% of the gross inflows to India were being repatriated/ disinvested.

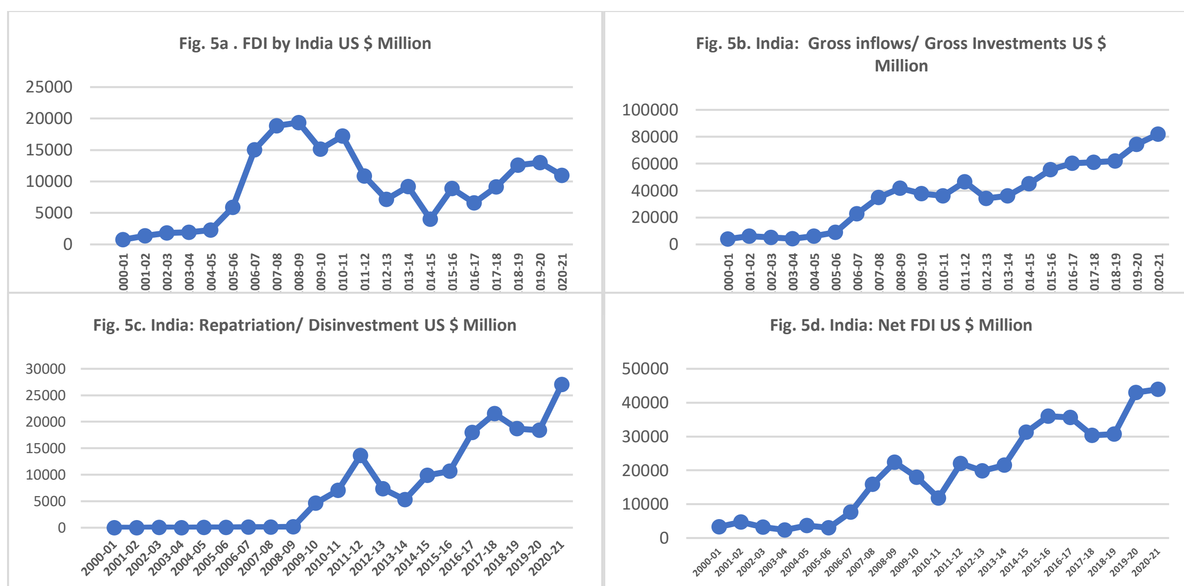
Table 4: Repatriation, Disinvestment & FDI by India (US $ Million)

Year	Repatriation/ Disinvestment	FDI by India	Year	Repatriation/ Disinvestment	FDI by India
2000-01	0	759	**2011-12**	13599	10892
2001-02	5	1391	**2012-13**	7345	7134
2002-03	59	1819	**2013-14**	5284	9199
2003-04	0	1934	**2014-15**	9864	4031
2004-05	65	2274	**2015-16**	10652	8886
2005-06	61	5867	**2016-17**	18005	6603
2006-07	87	15046	**2017-18**	21544	9144
2007-08	116	18835	**2018-19**	18699	12590
2008-09	166	19365	**2019-20**	18384	12993
2009-10	4637	15143	**2020-21**	27046	10972
2010-11	7018	17195			

Source: RBI

FDI by India

As can be seen from the table above, FDI by India showed a quantum increase from the year 2006-07, to reach high of nearly US $ 20 billion in the year 2008-09. Since then, it has declined to slightly under US $ 11 billion in 2020-21.



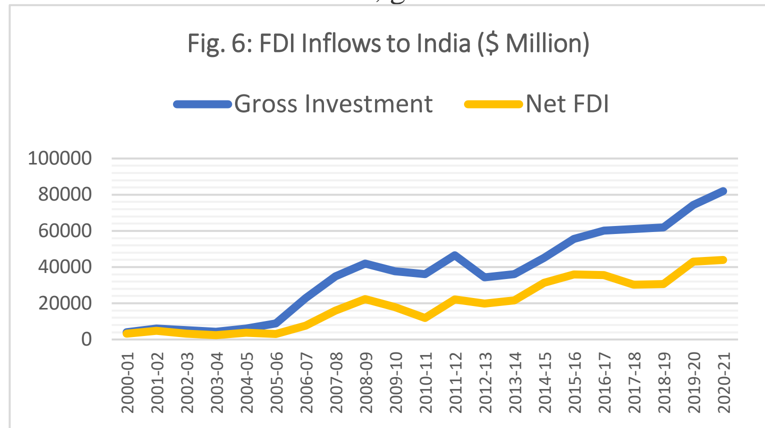
Gross vs. Net Inflows of FDI into India

Table 3 above reflects the Gross FDI inflows in India over the period from 1991 to 2021. After taking into account the repatriation / disinvestment and FDI by India to other countries, the resultant net FDI inflows in India, the resultant given in Table 5 below:

Table 5: Trends of Gross and Net FDI Inflows in India (US$ million)					
Year	**Gross Inflows**	**Net Inflows**	**Year**	**Gross Inflows**	**Net Inflows**
2000-01	4031	3272	**2011-12**	46552	22061
2001-02	6130	4374	**2012-13**	34298	19819
2002-03	5095	3217	**2013-14**	36047	21564
2003-04	4322	2388	**2014-15**	45147	31251
2004-05	6052	3713	**2015-16**	55559	36021
2005-06	8962	3034	**2016-17**	60220	35612
2006-07	22826	7693	**2017-18**	60974	30286
2007-08	34844	15893	**2018-19**	62001	30712
2008-09	41903	22372	**2019-20**	74390	43013
2009-10	37746	17966	**2020-21**	81973	43955
2010-11	36047	11834			

Source: RBI

In the twenty-one years spanning between 2000-01 and 2020-21, gross FDI inflows into India were of the order of US$ 765 billion. After netting out repatriation / disinvestment and FDI by India to other countries, the net inflows into the country were close to US$ 410 billion in this period. The annual net inflows of FDI into India increased from nearly US$ 3.3 billion in 2000-01 to US$ 44 billion in 2020-21.

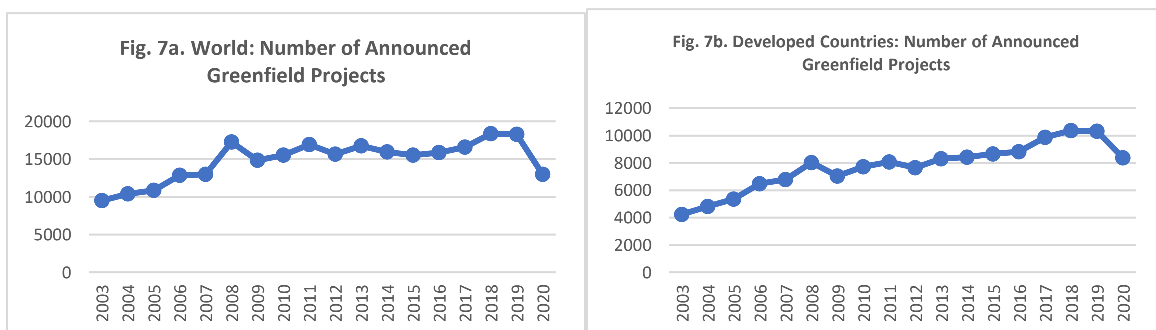


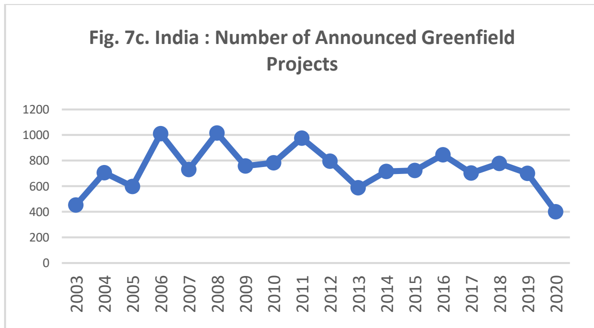
Greenfield Projects

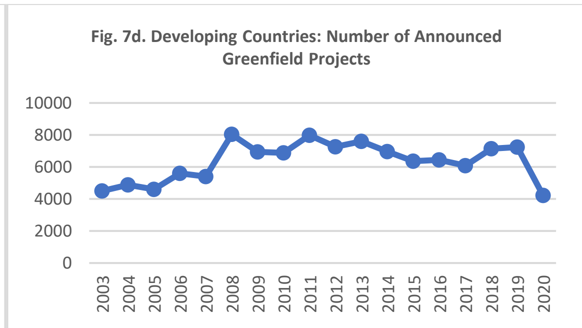
Globally, both the number and value of Greenfield Projects saw a decline in 2020. The value of announced greenfield investment projects fell to $564 billion in 2020 from $ 846 billion in 2019. Although all regions saw a decline, this was less marked in developed countries.

The major areas for announced Greenfield projects globally in 2019 & 2020 were Chemicals, Coke & Refined petroleum, Information and Communication, energy & Finance & Insurance.

India, which saw an increase in FDI against global trends, also witnessed a significant decline in both the number and value of announced Greenfield projects in 2020 down from slightly under $ 30 billion in 2019 to $ 24 billion in 2020, which was less than 50% of the announced projects worth $ 54 billion in 2018.

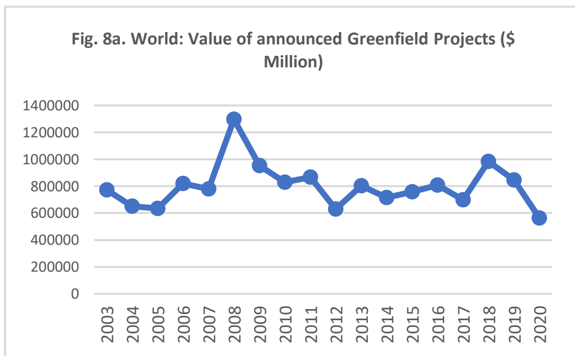


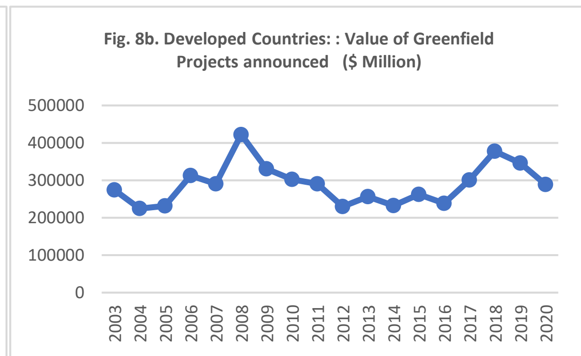


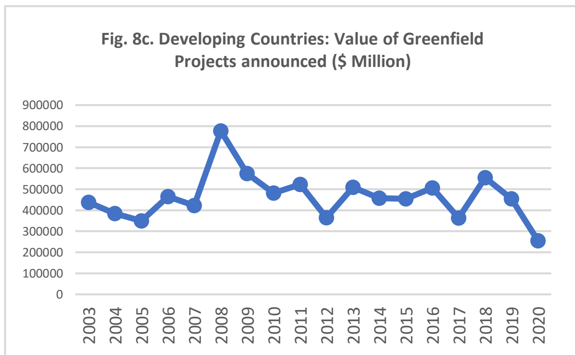


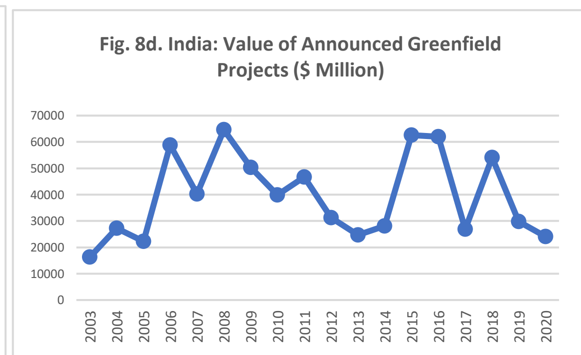
Source: World Investment Report Various Issues

Value of Greenfield Projects







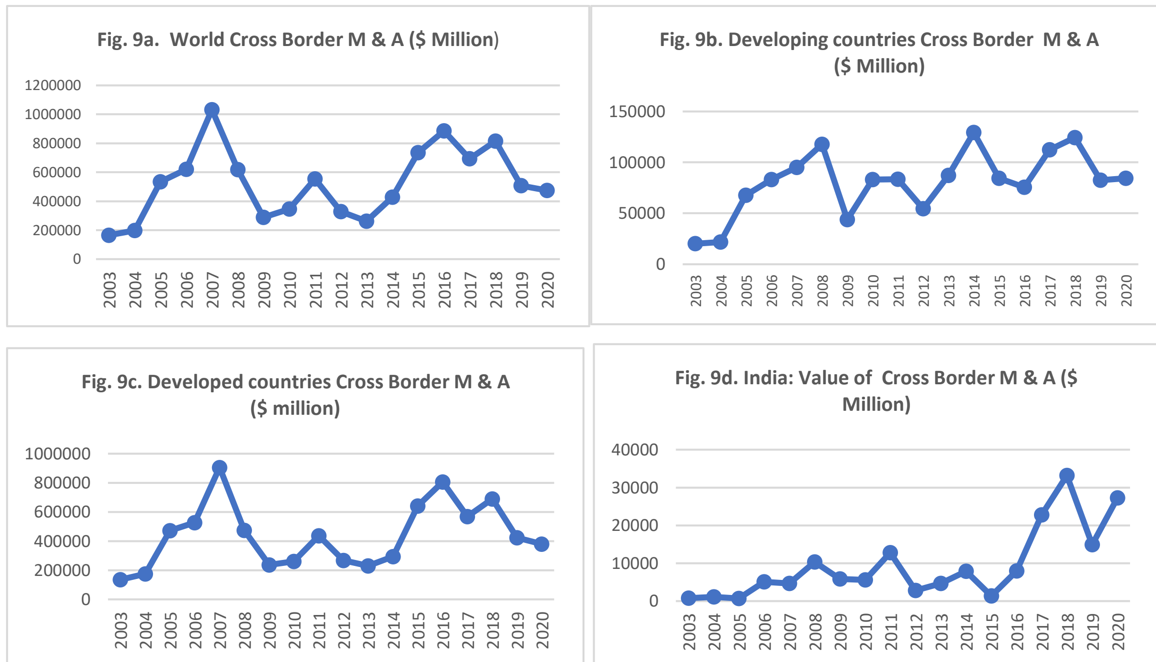


Source: World Investment Report Various Issues

Merger & Acquisitions

Cross Border Merger & Acquisitions saw a comparatively smaller decline globally in 2020 of 6% at US$ 475 billion. Developing Countries saw a small increase in the value of Cross Border

Merger & Acquisitions. India saw an increase of almost 100% from $ 14.9 billion in 2019 to $ 27 billion in 2020, although this was below the 2018 value of $ 33 billion.

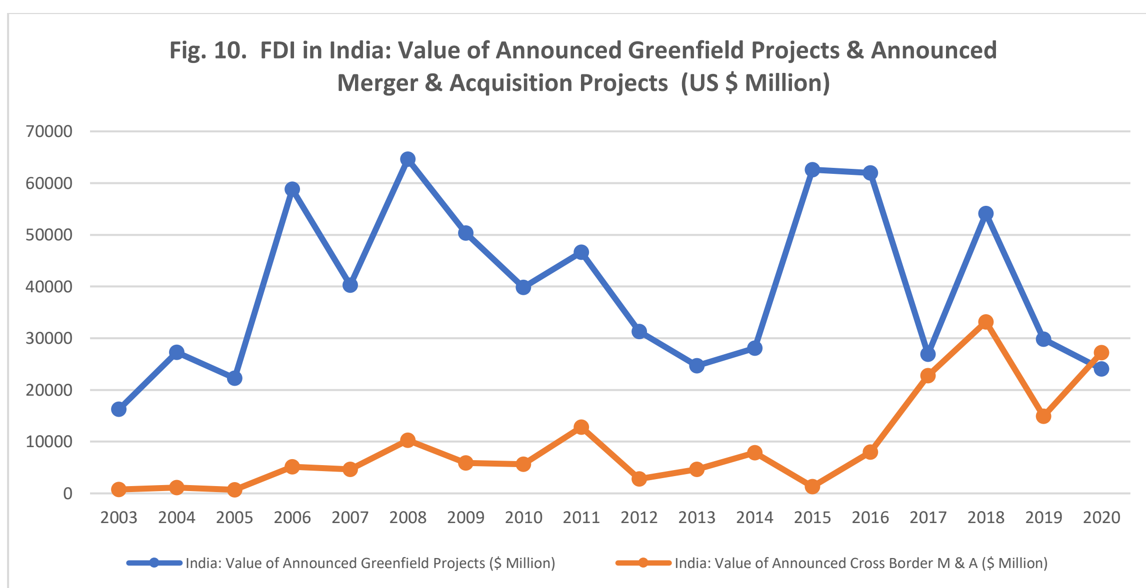


Source: World Investment Report Various Issues

The top sectors for Merger & Acquisition were information and communication and Pharmaceuticals, followed by Extractive industries, Finance & Insurance, Real estate & Utilities. Sales of assets in digital-related industries rose significantly (mainly in manufacturing of computers, electronics, optical products and electrical equipment, and in information and technology).

In India acquisitions in the information and communication technology (ICT) industry, were a major factor in the rise of FDI, notable being a $2.8 billion investment by Amazon (United States) in ICT infrastructure in India.

As can be seen from the figure below, 2020 was the first year when the Value of Merger & Acquisition in FDI in India has exceeded the FDI in Greenfield Projects. However, Greenfield projects have generally seen a decline in the last 4 years except for the year 2018, while Merger & Acquisitions have seen a consistent increase from 2015, with the exception of the year 2019.



Source: World Investment Report Various Issues

Source of FDI Equity Inflows to India

Of the total FDI equity inflows of close to US$ 530 billion that came into India between April 2000 and March 2021, nearly half were received from two small countries viz. Mauritius and Singapore. The top ten countries accounted for about 86 per cent of the total FDI inflows into India. (Table 6 and Figure 11).

Table 6: Sources of FDI Equity Inflows

	Apr 2000-Mar 2021	Apr 2000-Mar 2021
Country Name	**FDI Equity Inflows**	**FDI Equity Inflows**
	US $ million	% age share
Mauritius	148350	28.0
Singapore	115089	21.7
USA	43602	8.2
Netherlands	36641	6.9
Japan	35449	6.7
UK	30254	5.7
Germany	12863	2.4
UAE	11193	2.1
Cyprus	11134	2.1
Cayman Islands	10335	2.0
All Countries	529755	

Source: Factsheet on FDI, DIPP

In the nearly 13 years between end March 2008 and end March 2021 cumulative FDI equity inflows into India witnessed an over 9-fold increase, resulting in a growth rate of nearly 18.7%

annually. While inflows from countries like Mauritius and UK registered a lower growth than this average, inflows from other countries like Singapore, USA, Netherlands, Japan, etc. grew at a faster rate than this average. Over these years Singapore has emerged as the fastest growing major source of FDI equity inflows into India, registering an annual average growth of 29%. As a result, Singapore's share in FDI equity inflows into India increased more than three-folds from 7% to nearly 22% (Table 7).

Table 7: Top10 Sources of FDI Equity Inflows into India (%)

Top 10 Sources of FDI Equity Inflows		Top 10 Sources of FDI Equity Inflows	
	Apr 2000-Mar 2008		**Apr 2000-Mar 2021**
Mauritius	41.0	Mauritius	28.0
USA	7.3	Singapore	21.7
UK	7.0	USA	8.2
Singapore	7.0	Netherlands	6.9
Netherlands	4.3	Japan	6.7
Japan	3.4	UK	5.7
Germany	2.5	Germany	2.4
Cyprus	1.6	UAE	2.1
France	1.2	Cyprus	2.1
Switzerland	1.1	Cayman Islands	2.0
Source: Calculated from Factsheet on FDI, DIPP			

Small economies like Mauritius and Singapore have contributed disproportionately large sums to India's FDI equity inflows. Other small economies like Cyprus and Cayman Islands are among the top 10 contributors to India's FDI. This phenomenon will be examined in the later sections of this study.

The top source countries for annual FDI in the last 5 years are given in the table below. As can be seen, the share of Singapore remains the highest in the last 3 years, while the share of Mauritius has gone down significantly, although it continues to be among the top 3 source countries. The combined contribution of Mauritius and Singapore remains almost static in the last 5 years. Three countries, where the contribution has seen a quantum increase in 2020-21 are USA, UAE and Saudi Arabia. It needs to be seen if this trend continues in future years.

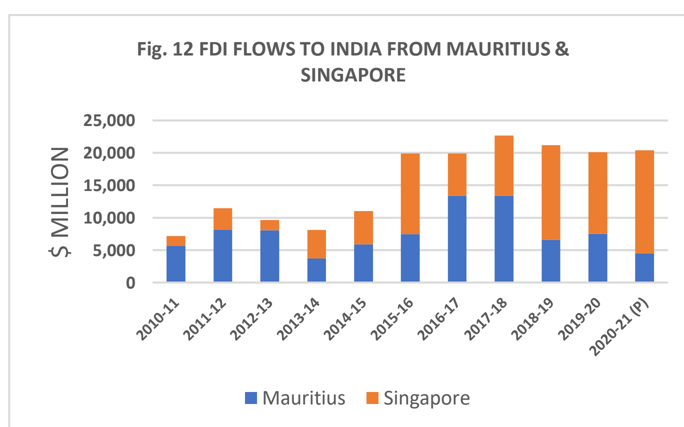
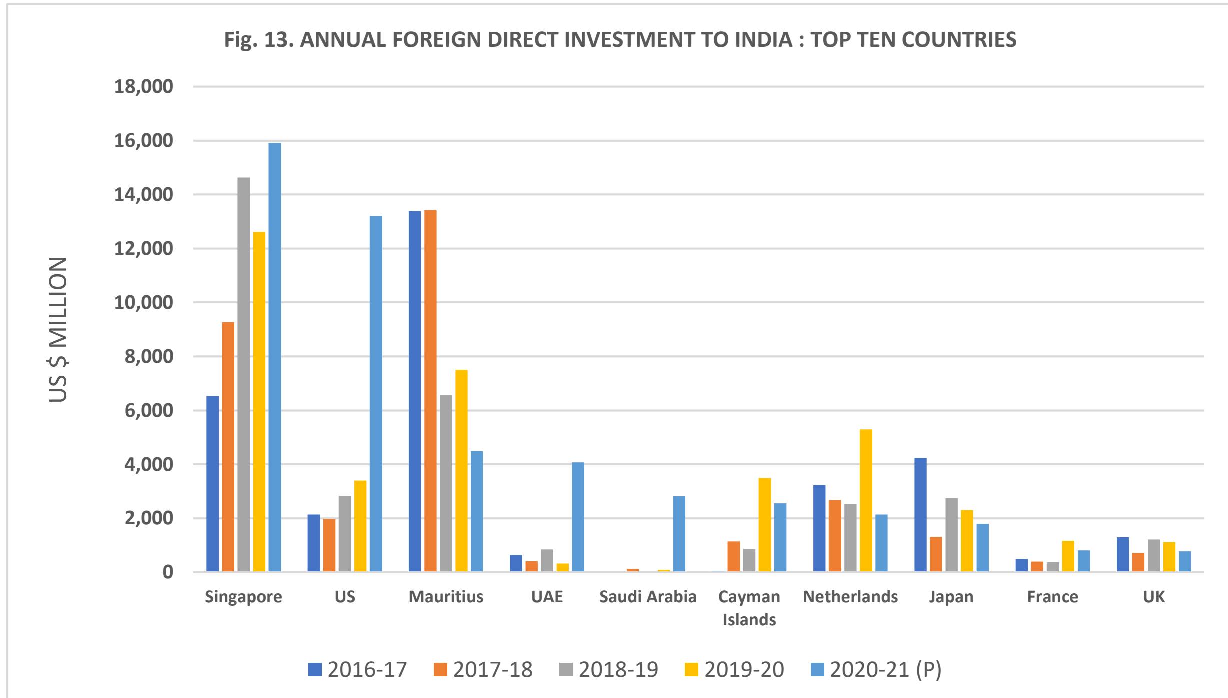


Table 8: Major Sources of FDI into India

Source	2016-17	2017-18	2018-19	2019-20	2020-21 (P)
Singapore	6,529	9,273	14,632	12,612	15,908
US	2,138	1,973	2,823	3,401	13,204
Mauritius	13,383	13,415	6,570	7,498	4,491
UAE	645	408	853	323	4,071
Saudi Arabia	12	125	27	89	2,815
Cayman Islands	49	1,140	863	3,496	2,558
Netherlands	3,234	2,677	2,519	5,295	2,138
Japan	4,237	1,313	2,745	2,308	1,794
France	487	403	375	1,167	810
UK	1,301	716	1,211	1,125	779
Germany	845	1,095	817	443	626
Spain	213	243	109	83	425
South Korea	466	293	982	777	400
Luxembourg	99	243	251	252	267
Belgium	172	213	56	388	246
Taiwan	12	112	24	44	219
Switzerland	502	506	280	140	188
Others	1,993	3,218	3,607	3,188	1,604

Source RBI



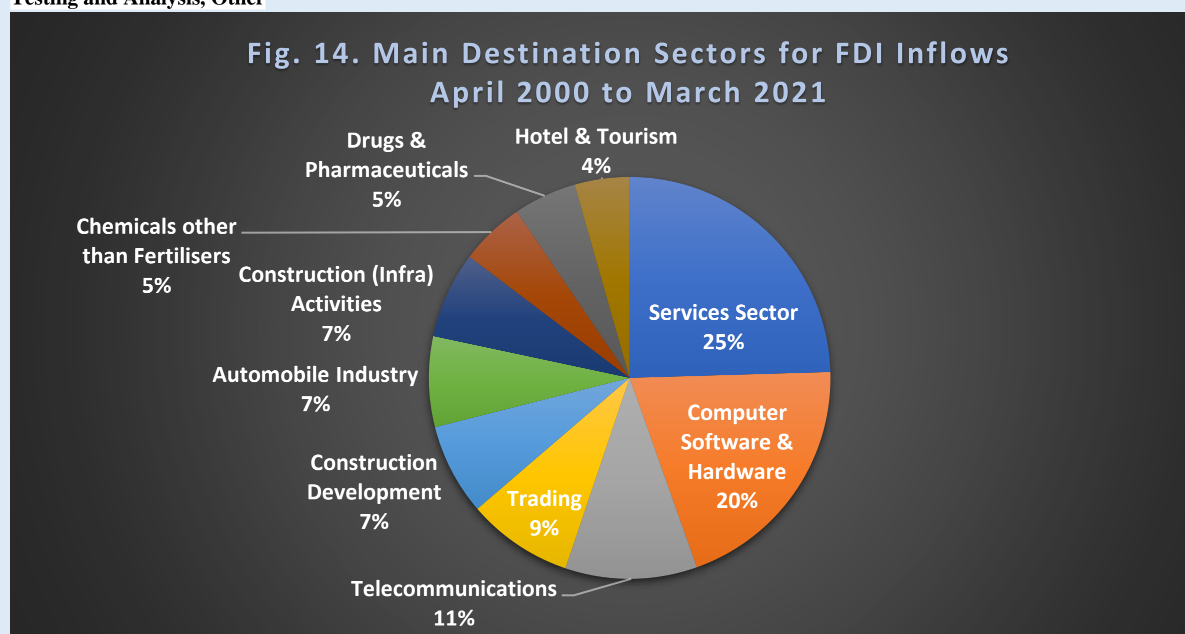
Ten sectors accounted for over two-thirds of the total FDI equity inflows into the country between April 2000 and March 2021. These sectors accounted for nearly three-fourths of total FDI inflows in the post 2014-15 period. These predominantly belong to the tertiary sector including computer hardware and software (Table 9). This is keeping in line with the predominance of the services sector in India's GDP.

Table 9: Main destination sectors of FDI Equity Inflows into India

Sectors	April 2000 to March 2021 US $ million	Sector Share (%)
Services Sector	87063	16.4
Computer Software & Hardware	71056	13.4
Telecommunications	37663	7.1
Trading	30203	5.7
Construction Development	26084	4.9
Automobile Industry	25848	4.9
Construction (Infra) Activities	24721	4.7
Chemicals other than Fertilisers	18487	3.5
Drugs & Pharmaceuticals	17991	3.4
Hotel & Tourism	15658	3.0
Total Main destination sectors	354774	
Other Sectors	174981	33.0
All Sectors	529755	100.0

Source: Factsheet on FDI, DIPP

Note: Services sector includes Financial, Banking, Insurance, Non-financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other

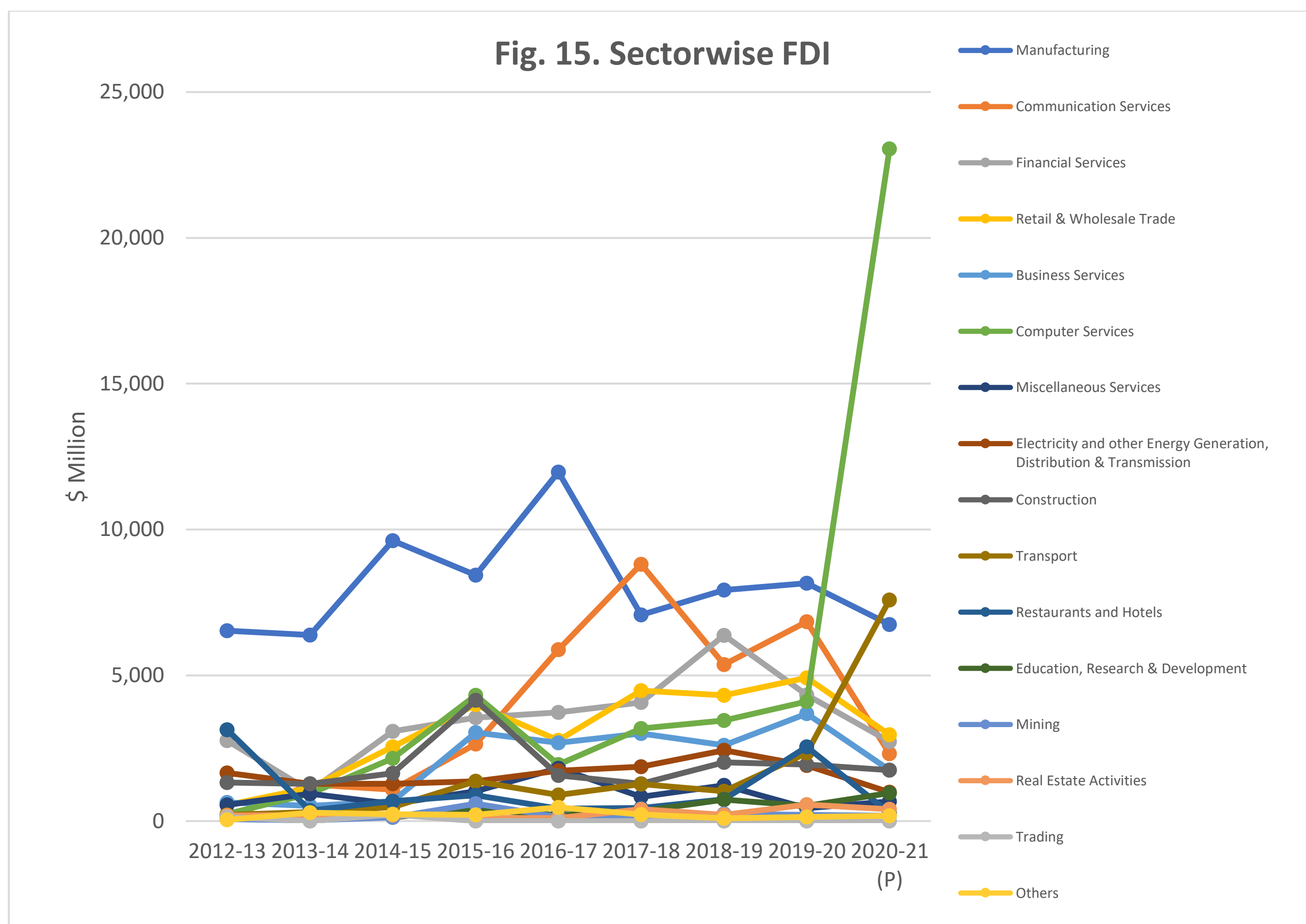


Over the last decade, there have been some changes in quantum of investment received by various sectors. In 2020-21, the two sectors that have seen a significant increase are computer services and the transport sector. Computer services has risen from less than 10% of FDI to around 44% in 2020-21. The combined share of computer services and the transport sector is 58%.

In fact, if the inflows on account of computer services are removed, the FDI inflows in 2020-21 would be the lowest in the last 5 years.

Table 10: Destination sectors for FDI Inflows in India 2012-13 to 2020-21 (US $ million)

Source/Industry	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (P)
Total FDI	18,286	16,054	24,748	36,068	36,317	37,366	38,744	42,629	52,545
Sector-wise Inflows									
Manufacturing	6,528	6,381	9,613	8,439	11,972	7,066	7,919	8,153	6,739
Communication Services	92	1,256	1,075	2,638	5,876	8,809	5,365	6,838	2,314
Financial Services	2,760	1,026	3,075	3,547	3,732	4,070	6,372	4,326	2,728
Retail & Wholesale Trade	551	1,139	2,551	3,998	2,771	4,478	4,311	4,914	2,960
Business Services	643	521	680	3,031	2,684	3,005	2,597	3,684	1,750
Computer Services	247	934	2,154	4,319	1,937	3,173	3,453	4,104	23,050
Miscellaneous Services	552	941	586	1,022	1,816	835	1,226	443	671
Electricity and other Energy Generation, Distribution & Transmission	1,653	1,284	1,284	1,364	1,722	1,870	2,427	1,906	989
Construction	1,319	1,276	1,640	4,141	1,564	1,281	2,009	1,937	1,746
Transport	213	311	482	1,363	891	1,267	1,019	2,333	7,584
Restaurants and Hotels	3,129	361	686	889	430	452	749	2,546	278
Education, Research & Development	150	107	131	394	205	347	736	528	963
Mining	69	24	129	596	141	82	247	217	186
Real Estate Activities	197	201	202	112	105	405	213	564	401
Trading	140	0	228	0	0	0	0	0	0
Others	43	292	232	215	470	226	102	137	187
P: Provisional.					Note: Includes FDI through approval and automatic routes only.				
Note: Includes FDI through SIA/FIPB and RBI routes only.					Source: RBI.				



Source : RBI

FDI Policy

There have been significant changes in India's approach to attracting foreign investment since early 1990s when it began the reforms process. Prior to initiation of the reforms process, India had followed cautious and selective approach to attracting FDI into the country. FDI was encouraged only in the area of high technology and areas to build national capabilities. It was discouraged in the areas of low technology in order to promote domestic industry. Government also established Special Economic Zones and provided incentives for promoting FDI in these zones to encourage exports. This was followed by partial liberalisation of trade and investment policies in the 1980s that included delicencing, permitting modernisation of industries through liberalised import of capital goods and technology in order to promote exports. This was supported by measures such as tariff reduction, etc.

The post liberalisation period since 1991 has been characterised by further liberalisation of foreign investment. The government has taken a number of measures in order to attract foreign

investment into India including opening up a large number of sectors to foreign investment where it was not permitted earlier, raising the permissible limit of foreign investment into different sectors, tax incentives, introduction of Automatic Route and Government approval route and bringing in more sectors under more liberalised automatic route, etc. Table 11 gives the details as to how the FDI limits have evolved in selected sectors between 2010 and 2020.

Table 11: FDI Limits 2010 – 2020

Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Banking-Private sector	74%G 49%A	74% G 49% A	74% G 49% A	74% G 49% A	74%G 49%A	74%G 49%A	74%G 49%A	74% G 49% A	74%G 49%A	74%G 49%A	**74%G 49%A**
Banking-Public Sector	20%G	20% G	20% G	20% G	20%G	20 % G	20 % G	20% G	20% G	20% G	**20% G**
Insurance	26%A	26% A	26% A	26% A	26%A	49%A	49%A	49% A	49%A	49%A	**49%A**
Drugs & Pharmaceuticals including, those involving use of recombinant technology	100% A	100 % A	100% A	100% A	100% A	100% A	100% A	100 % A	100% A	100% A	**100% A**
Power	100% A	100% A									**100% A**
Construction and maintenance	100% A	100 % A									**100% A**
Development of Townships, Housing, Built-up infrastructure and Construction-development projects	100% A	100 % A	100% A	100% A	100% A	100% A	100% A	10% A	100% A	100% A	**100% A**
Petroleum & Natural Gas Sector	100% A	100 %A	100% A	100% A	100% A	100% A	100% A	100 % A	100% A	100% A	**100% A**
Single Brand Product Trading	51%G	51% G	100% G	100% G	100%G	100%G	100%G	100 % G	100%G	100%G	**100% G**
Telecom Services	49%A 74%G	49% A 74% G	49% A 74% G	49% A 74% G	49%A 100%G	49%A 100%G	49%A 100%G	49% A 100% G	49%A 100%G	49%A 100% G	**49%A 100% G**
Defence Industry	26 %G	26% G	26% G	26% G	26%G	49 % G	49 %G	100% G 49 % A	100% G 49% A	100% G 49%A	**100% G 74% A**
Satellites Establishment and operation	**74% G**	**74% G**	**74% G**	**74% G**	**74% G**	**74% G**					**100% G**

A: Automatic Route; G: Government Approval Route

Clearly, the Table points out towards more liberalised FDI regime in the recent years, with new sectors brought under 100 per cent automatic route and many sectors where FDI limits under automatic route much more liberalised as compared to earlier period. As per the Consolidated FDI Policy (Effective from October 15, 2020), a large number of sectors are under Automatic Route and permissible FDI cap of upto 100 per cent. Some of the salient features of this FDI policy are as under.

FDI is prohibited in the following sectors.

- Lottery Business including Government/private lottery, online lotteries, etc
- Gambling and Betting including casinos etc.
- Chit funds
- Nidhi company
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business or Construction of Farm Houses. (Real estate business shall not include development of townships, construction of residential /commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations, 2014.)
- Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities/sectors not open to private sector investment e.g. (i) Atomic Energy and (ii) Railway operations (other than selected permitted activities).

Foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for Lottery Business, Gambling and Betting activities.

Permitted Sectors

The sectors where FDI is permitted to varying degrees are summarised below. The details of FDI permitted in different sectors are listed in Annex 1. (This is based on Chapter 5 of Consolidated FDI Policy 2020).

Selected activities of Agriculture and Animal Husbandry sector are permitted under Automatic route and upto a cap of 100% of equity/ FDI. Similarly, upto 100% FDI is permitted under Automatic route for plantations of tea, coffee, rubber, cardamom, palm oil tree and olive oil tree.

In the area of mining activity, mining and exploration of metal and non-metal ores including diamond, gold, silver & precious ores (other than titanium bearing minerals and its ores) FDI is permitted upto 100% under Automatic route. However, this is subject to the provisions of Mines and Minerals (Development and Regulation) Act, 1957. Similarly, mining of coal and lignite (for certain activities) is also permitted upto 100 per cent FDI under Automatic route, subject to the provisions of Coal Mines (Special Provision) Act, 2015 and Mines and Minerals (Development and Regulation) Act, 1957. Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities are permitted upto 100% FDI under Government approval route.

In the petroleum and natural gas sector, exploration activities of oil & natural gas fields, infrastructure related to marketing of petroleum products & natural gas, marketing of petroleum products & natural gas, petroleum product pipelines, natural gas pipelines, LNG Regasification infrastructure, market study and formulations & petroleum refinery in the private sector are permitted upto 100% FDI under Automatic Route subject to existing sectoral policy & regulatory framework in the oil marketing sector and the policy of the government on private participation in exploration of oil and in discovered fields of national oil companies. Also permitted is upto 49% FDI under Automatic Route in petroleum refining by the PSUs, without any disinvestment or dilution of domestic equity in the existing PSUs.

India has become one of the most attractive destinations for investment (FDI) into manufacturing sector. According to data available from Department for Promotion of Industry and Internal Trade, the cumulative FDI inflows into manufacturing sector was close to US$ 100 billion during the period from April 2000 to March 2021. In the 'Manufacturing' sector, foreign investment is permitted under Automatic route subject to the provisions of FDI policy. A manufacturer is also permitted to sell its products manufactured in India through wholesale and / or retail, including through e-commerce, without government approval.

A large number of the activities in the Services sector are permitted upto 100 per cent FDI under Automatic route. These include a range of Broadcasting Carriage services (subject to certain conditions); a number of activities under Civil Aviation sector (with certain conditions); Construction Development, e.g. townships, housing, built-up infrastructure (with certain conditions); Industrial Parks; Cash and Carry wholesale trading/ Wholesale trading (including

sourcing from MSEs), with certain Guidelines to be followed; Single brand product retail trading (subject to certain conditions); Duty free shops; Railway Infrastructure (subject to certain conditions); Asset Reconstruction companies within Financial services (subject to certain conditions); [FDI in all other Financial services require prior government approval]; Credit information companies (subject to conditions); Insurance intermediaries including insurance brokers, reinsurance brokers, insurance consultants, corporate agents, third-party administrators, Surveyors and Loss Assessors and such other entities as may be notified by IRDAI from time to time (subject to certain conditions); White Label ATM operations (subject to conditions); Other financial services (subject to conditions): these are financial sector activities regulated by financial sector regulators, viz. RBI, SEBI, IRDAI, PFRDA, NHB or any other financial sector regulator, as may be notified by Government of India from time to time. Similarly, some of the sectors in manufacturing like Pharmaceuticals (Greenfield) (subject to conditions) are also permitted 100 per cent FDI under Automatic route.

FDI under Automatic route is permitted in a number of other activities in different sectors with caps ranging from 49% as in the case of in the Pension sector and Insurance companies (subject to conditions), Power exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010 (subject to conditions) or say in Telecom services (including Telecom Infrastructure Providers Category I) (Government approval route beyond 49%) or in Private sector Banking (Government approval route between 49% and 74%) to 74% as in the case of Pharmaceuticals (Brownfield) (Government approval route beyond 74%).

There are some other activities where FDI is permitted only subject to government approval, with FDI cap ranging from 20% as in the case of Public Sector Banking (subject to conditions) and 26% in Print Media, e.g. publishing of newspapers and periodicals dealing with news and current affairs & publication of Indian editions of foreign magazines dealing with news and current affairs to 51% as in the case of Multi-brand Retail Trading (subject to conditions) and 100% as in the case of Satellites - Establishment and Operations (subject to sectoral guidelines of Department of Space and ISRO), 100% in publishing / printing of scientific and technical magazines / speciality journals / periodicals (subject to conditions) & publication of facsimile edition of foreign newspapers (subject to conditions).

FDI limits for some selected sectors are summarised in Table 12(Details given in Annexure I).

Table 12: FDI Limits in Selected Sectors			
	Sector	**FDI Limit**	**ROUTE***
1.	Agriculture and Allied Activities	100%	Automatic
2.	Coal Mining	100%	Automatic
3.	Defence	100%	Automatic upto 49% Govt Route beyond 49%
4.	Print Media	26%	Government Route
5.	Airports	100%	Automatic
6.	Telecom	100%	Automatic upto 49% Govt Route beyond 49%
7.	Single brand retail	100%	Automatic upto 49% Govt Route beyond 49%
8.	Private sector banks	74%	Automatic upto 49% Govt Route beyond 49%
9.	Public sector banks	20%	Government Route
10.	Insurance and Pension	49%	Automatic Route

**: Under Automatic Route, non-resident or Indian company does not require any approval from Government of India. Under Government Route, approval from Government of India is required prior to investment.*

It may be noted that there are a number of the sectors mentioned in the Table and Annexure I are under Automatic route with permissible limit of 100 per cent in FDI. However, Public sector banking has continued with 20 per cent FDI limits with government approval. In Telecommunications, permissible limit for FDI is 100 per cent, with permissible limit of 49 per cent under automatic route. FDI to the extent of 49% is permitted under automatic route since 2015 in the Insurance sector. This limit was 26% prior to that.

Double Tax Avoidance Agreement and FDI

According to a study, 'Foreign Direct Investment in India and Role of Tax Havens' authored by Suraj Jaiswal and published by Centre for Budget and Governance Accountability (CBGA) and Institute for Studies in Industrial Development (ISID) (2017) covering the time period 2004-14, close to two-thirds of FDI inflows to India came through a country other than the home country of foreign investor. (The analysis here is based on this study). Majority of the funds were routed through the jurisdictions which are commonly known as 'tax havens' or 'secrecy jurisdictions'. The study found strong positive correlation between routing of funds and level of secrecy offered by respective jurisdictions.

The Government of India has provided various incentives for attracting FDI into the country like creating Special Economic Zones (SEZs), where entities are entitled to certain benefits,

e.g. exemption on import duty & income tax, incentives for exports, opening up of many sectors for FDI (where FDI was not permitted earlier), Double Tax Avoidance Agreement (DTAA), etc.

DTAAs aim at promoting trade and investment by eliminating double taxation. There are a few ways in which a country can treat foreign income earned by its residents. These include

a) Exemption: Foreign income is outside the purview of domestic taxes
b) Credit: Foreign income is taxed at domestic rates, with provision for giving credit for taxes paid in foreign country.
c) Deduction: Foreign income is taxable though income considered is net of taxes paid abroad.
d) Treating as domestic income: Entire foreign income is treated as domestic income.

By entering into DTAAs, both jurisdictions agree as to how they will treat income earned on cross border capital flows and avoid double taxation of the same income. However, in India DTAAs have been criticised for facilitating 'treaty shopping' and 'round tripping'. This is reflected in disproportionately large FDI inflows from small countries like Mauritius, Singapore and Cyprus. In treaty shopping the investors route their investment through a third jurisdiction to take advantage of DTAA between that jurisdiction and destination jurisdiction, thus reducing / avoiding tax payment in the destination jurisdiction. In case of round tripping, a domestic investor first takes funds outside the country and then routes it back as foreign investment, thus taking advantage of benefits, e.g. lower taxes, available to foreign investor. This tends to reduce the revenue for the government and also sometimes results in illegal activities such as money laundering.

Increasing number of governments have been trying to attract FDI by providing incentives that can take the form of tax exemptions, regulatory exemptions, providing subsidised land, power and other inputs, etc. However, these incentives are not the only factors that determine the flow of FDI into a country. It also depends on other factors like market size, political and macro-economic stability, GDP growth, availability of robust infrastructure and presence of skilled human resources, etc. One incentive that has been employed by a number of countries to attract FDI has been Double Taxation Avoidance Agreement (DTAA). The aim of signing DTAAs include promoting investment, skill and technology transfer, reducing cross-border tax

avoidance/ evasion by cooperating with tax authorities. Such DTAAs also tend to shift taxation rights.

Some authors have argued that when an agreement is signed between capital exporting countries and capital importing countries, the taxation rights and tax revenue tends to shift from capital importing (poorer) to capital exporting (richer) countries. The last few decades have also witnessed a phenomenon in which the capital does not flow directly from capital rich to capital poor countries but through jurisdictions that have lower taxes, lax regulation for operations, but strict rules for confidentiality and information protection. These jurisdictions are commonly known as 'Tax havens'. Tax havens have been classified in two ways. The narrower view takes tax havens as the entities having low tax rates and other monetary cost of conducting business. The broader view of tax havens, additionally, takes non-tax aspects such as domestic rules on transparency, exchange of information, cooperation with other jurisdictions, etc.

Extensive literature is available on the role of tax havens and their impact on non-tax haven jurisdictions. These studies try to estimate the impact on loss of corporate tax revenue, wealth that is kept tax-free in tax-havens, comparison of tax paid by the MNCs that have subsidiaries in tax havens vis-a-vis those who do not, magnitude of household wealth in tax havens, etc. The numbers are found to be fairly significant. However, there are some who argue that tax havens are used for legitimate tax planning and their role in substantial revenue loss is exaggerated. However, on balance, there is acceptance of the viewpoint that tax havens cause significant revenue loss and overall 'negative spillover'. (For details of literature on this, please see Jaiswal (2017), cited above).

For India, small economies like Mauritius, Singapore and Cyprus accounted for disproportionately large share of FDI inflows. This prompted the government to renegotiate the DTAAs with these countries, which were amended in 2016. In the post 2016 period, the share of Mauritius and Cyprus declined in FDI equity inflows into India. For example, between April 2000 and March 2016, the share of Mauritius in total FDI inflows into India was 33.2 per cent. This declined to 21.7 per cent of these flows between April 2016 and March 2021. It is difficult to say whether the decline was on account of amendment in DTAAs, but decline is significant.

From where does the FDI actually come into India?

The paper by Jaiswal, cites studies by Rao and Dhar (2011 and 2016) to be the sources that provide the roots of FDI investors. The analysis here is based on Jaiswal (2017).

The study by Rao and Dhar (2016) covers the time period 2004-14. They have developed their database from SIA newsletters brought out by DIPP and covered nearly US$ 174 billion out of US$ 205 billion FDI equity inflows to India reported for the period. These inflows were classified into three groups.

a) Direct flows, where Reported country and Home country are the same.
b) Routed flows, where Reported country and Home country are different.
c) Unidentified flows, where either Home country or Reported country are not identified.

Of the US$ 174 billion equity inflows, unidentified flows were estimated to be US$ 10 billion. Of the balance US$ 164 billion, direct and routed flows were estimated to be US$ 45 billion (27.4%) and US$ 119 billion (72.6%), respectively. The motivation of routing of funds was found in two determinants viz. tax and secrecy considerations. For tax, the authors compare DTAAs with 10 countries, which contribute the largest inflows into India along with India's domestic tax regulations. For secrecy, the secrecy score based on Financial Secrecy Index of Tax Justice Network was used. This index is based on different parameters and provides scores between 1 and 100 to different jurisdictions. Score of 1 implies perfectly transparent system, while score of 100 implies perfectly secretive system. The author further classifies different jurisdictions into various groups, depending on the score. (Table 13).

Table 13: Classification of Various Jurisdictions

Secrecy Score	Classified As	No. of countries
Less than 50	Transparent	21
Between 50 & 60	Moderately Secretive	11
Between 60 & 70	Secretive	11
More than 70	Highly Secretive	16
Other countries	NA	17

Findings about the nature of FDI inflows into India (Based on Jaiswal, 2017)

India's share in global FDI inflows increased from 0.9 per cent in 2004-05 to 2.5 per cent in 2013-14, reaching a level of 2.9 per cent in 2009-10 and 2011-12. Relatively smaller economies like Mauritius, Singapore and Cyprus were disproportionately large contributors to inward FDI

to India, with the first two contributing to over half of FDI equity inflows into the country. Often FDI inflows to India from Mauritius exceeded the latter's GDP. For instance, while the FDI inflows from Mauritius to India were of the order of US$ 10.1 billion in the year 2008-09, the GDP of Mauritius was US$ 9.9 billion, and India was not the only recipient of FDI from that country. Such facts led to greater acknowledgement that some of these small economies are being used for tax avoidance/ evasion, round tripping. The study by Rao and Dhar (2016) highlights the distinction between reported country and ultimate home country. For instance, Walt Disney Co (South East Asia) Pte Ltd based in Singapore was the company reported to have invested in India, the ultimate investor/ parent company was Walt Disney Co based in the US (home country). According to the study, while Mauritius and Singapore were reported to be the top contributors of FDI to India, US becomes top contributor of FDI to India based on home country criteria**. The next largest contributor of FDI into India were in fact companies based in India.** The other significant contributors (based on home country criteria) were UK, Japan, Germany, etc.

It may be mentioned that in the study, the classification of jurisdictions is based on the control of funds and not on the origin of funds. For example, of the funds coming to India, controlled by India based companies, some part may have been raised overseas. Yet, round tripping is also not ruled out. Another important point that emerges is that about one-fourth of the FDI came directly from home countries, while more than two-thirds of the funds were routed through other jurisdictions, implying that of the FDI inflows into India, more than two-thirds were shifted to other jurisdictions before being brought into India. Looking at the secrecy aspect, the study points out that more than three-fifths of the inflows into India were from highly secretive / secretive countries, while about one-third came from relatively transparent nations. Also, high level of secrecy was generally associated with greater proportion of inflows being routed and not coming directly from home country. More than 80 per cent of the routed funds have come from highly secretive jurisdictions. On the other hand, 70 per cent of the funds directly from home country were from transparent or moderately secretive jurisdictions. Known tax havens or secretive jurisdictions tend to have higher share of routed funds. For example, of the FDI coming to India from Mauritius, Cyprus, etc., more than 90 per cent were routed funds, while there were hardly any routed funds from countries like Japan.

What explains the role of Tax havens in FDI to India

Given the profit maximising objectives of business entities, establishing subsidiaries in tax havens (with or without engaging in real economic activity) provides these entities the benefits that exceeds the associated costs. MNCs and other investors use such subsidiaries in tax havens to take advantage of low tax rates in these entities as well as for minimising tax payments in other jurisdictions. This is done in the following manner.

Use of Double Taxation Avoidance Agreements: When various jurisdictions differ in terms of tax rates or tax base or other related regulations, it is obvious for business entities to minimise tax liabilities by shifting incomes to jurisdictions with lower taxes by taking advantage of such agreements.

Use of Digital Economies: Digital economies have made it easier to do business across jurisdictions. It has also enabled consumers to have an access to products and services from anywhere in the world. This has posed challenges for collecting appropriate amount of taxes.

Treaty Shopping: Treaty shopping generally involves attempt by entities to indirectly access the benefits of a tax treaty between two jurisdictions without being a resident in any one of them. There are a number of ways in which a person who is not a resident of either jurisdiction that have tax agreements, may try to reap benefits of the agreements that are available to the residents of the countries which have signed agreements. Persons who are engaged in treaty shopping often claim treaty benefits in situations where they are not intended beneficiaries. This deprives the jurisdictions of tax revenue.

Abusive Transfer Pricing: Transfer pricing refers to the valuation of transactions between related enterprises. When transfer price differs from corresponding market price, it is called abusive transfer price. MNCs with multiple subsidiaries can shift income from high to low tax regimes by assigning misappropriate valuation to intra-corporate transactions, thus lowering tax liability. The minimal cost of establishing a shell company and low tax rates in tax havens provide incentives to the MNCs such that a subsidiary can be set up in a tax haven to take advantage of taxation framework resulting from DTAAs. To assess the role of DTAAs in influencing the inflows into India, the study looked at the effective tax rates for different incomes arising out of inflows into India from different jurisdictions.

A non-resident is likely to pay taxes in India, if he has

- Income received or deemed to be received in India
- Income accruing or arising in India
- Income deemed to accrue or arise in India

The charge of income tax on non-resident arises from Indian domestic tax laws only. However, in the case of countries with which India has DTAAs, it is the interaction of domestic tax laws and provisions of DTAAs, whichever is more beneficial to taxpayer, will prevail. To determine whether tax outgo influences the routing of funds, the study looked at the effective tax rates for main forms of income for top ten countries identified on the basis of amount of FDI inflows reported. It was found that top three jurisdictions in terms of routed funds viz. Mauritius, Cyprus and Singapore had effective short term capital gains tax rate of zero per cent. Some other countries where capital gains taxes are exempt under certain conditions are also quite significant contributors to routed funds to India. This seems to suggest that exemption from capital gains taxes is possibly the most important factor in routing funds to India from these jurisdictions. In addition, to avail benefit of DTAAs, the concerned entity has to obtain Tax Residency Certificate of the Resident TRCs country and provide it to the host country. This is to ensure that the said entity has legitimate business in the resident country and has not been incorporated merely to take advantage of DTAA. However, countries like Mauritius have lax rules for providing TRCs making it relatively easier to obtain them.

DTAAs that primarily aim at attracting foreign investment can also create a situation where potential return to foreign investor is higher than the domestic one. In these circumstances, domestic investors tend to engage in round-tripping. Lack of data acts as a constraint to estimate the extent of round-tripping. However, about 17 per cent of the FDI into India was reported to be by India based entities, which raises suspicion of round tripping.

Tax havens are also used for illegal activities like tax evasion, money laundering, etc. However, these aspects are not studied, partly due to the fact that very little information is available on them.

Overall, the study suggests that large FDI inflows from jurisdictions that are considered tax havens can be attributed to combination of domestic tax regulations and double tax avoidance agreements which help in minimising tax outgo for the investor/ MNC. It is also found that the then prevailing regulations were more beneficial for overseas investors than domestic investors, thus creating incentives for round-tripping. Furthermore, jurisdictions that have higher degree of routed funds, also have higher secrecy levels.

As India opened more sectors to FDI or raised the limits of FDI in certain sectors, following long-drawn negotiations the country also amended the DTAAs with Mauritius, Singapore and Cyprus in 2016. As a result, effective tax rates applicable to investment from these countries underwent a change. This effectively meant withdrawal of zero tax rates for short term capital gains. Following the changes in DTAAs, the share of Mauritius and Cyprus declined while that of Singapore increased. It is difficult to say whether the decline in the share of inflows from Mauritius and Cyprus is the result of amended DTAAs.

Furthermore, in 2019 India ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. This Multilateral Convention was an outcome of OECD / G20 project to tackle Base Erosion and Profit Shifting (BEPS). These were tax planning strategies that exploited the gaps and mismatches to artificially shift profits to low or no tax locations where there was little economic activity, resulting in lower or no corporate tax outgo. This agreement aimed at creating a global regulatory framework with a view to curb various ways of tax avoidance such as digital economy, controlled foreign companies, abusive transfer pricing, treaty abuse, etc. These regulations are likely to affect the decisions of those MNCs which are motivated more by tax considerations than by economic rationale. There are provisions such as Country by Country Reporting that are expected to provide governments previously inaccessible information about MNCs that may help in curbing tax avoidance/evasion.

Another important global development relates to exchange of information. This is done to prevent tax avoidance/evasion. Under this, two signatory jurisdictions exchange information about taxpayers in partner's jurisdictions. From 2017, the Global Forum began facilitating exchange of information between Member countries automatically. As a result, governments have access to financial information, that was hitherto inaccessible, about its taxpayers who have assets in foreign countries. This could also have an impact on round tripping.

These developments are expected to result in changes in the tax and regulatory structure as well as secrecy framework provided by tax havens. These developments are likely to impact cross-border capital flows.

Conclusions and Recommendations

Governments, particularly in developing countries, have been actively seeking to attract foreign direct investment that result in many benefits, viz. increased production capacity, employment generation, improved technology, etc. One such measure to attract investment has been the possibility of avoiding double taxation. However, DTAAs, particularly those with tax havens have been abused for treaty shopping, round-tripping, etc., thus resulting in tax avoidance. India has not been an exception to this phenomenon. Two small economies viz. Mauritius and Singapore accounted for nearly half of FDI into India. However, more than 90 per cent of investment that was coming from these countries was from investors who were based in some other country. An important reason for this appears to be zero effective capital gains tax for these jurisdictions. The fact that nearly 17 per cent of the FDI to India was contributed by India based entities is a clear indicator of possibility of round tripping. The possibility of using tax havens for illegal activities also can be not ruled out.

The Indian government, after long negotiations, amended DTAAs with Singapore, Cyprus and Mauritius in 2016. In addition, certain developments at the global level, viz. BEPS, automatic exchange of information could also have an impact on FDI flows. In the years that followed the amending the DTAAs, the share of Mauritius in FDI to India has certainly shown a declining trend. Whether it is caused by amendment in DTAAs is difficult to say.

In the recent years some steps have been taken at the global level that are expected to result in changes in the tax and regulatory structure as well as secrecy framework provided by tax havens. These developments are likely to have an impact on round tripping and treaty shopping and hence on cross-border capital flows.

- FDI in India should be monitored both for Gross inflows and Net inflows, since net inflows are approximately 50% of Gross Inflows in the country and disinvestment/ repatriation has been rising

- The number and quantum of greenfield projects has been declining. Government of India should monitor the policy and other impediments for investment in greenfield projects and attempt to increase the share of greenfield projects in FDI in India, since this is important for fresh investment and job creation.
- The quantum of merger & acquisitions in FDI has been rising steadily. Government should monitor this closely to ensure that this does not lead to monopolies and lack of competition in specified sectors.
- Two small economies viz. Mauritius and Singapore accounted for nearly half of FDI into India. However, more than 90 per cent of investment that was coming from these countries was from investors who were based in some other country. India should look at strengthening and closer monitoring of DTAA like agreements.
- Companies based in India are large contributors to FDI in India. This needs to be monitored closely and be reflected in annual reports.

Annexure-I (FDI Limits)

Sector	FDI Limit	Entry Route
Agriculture & Animal Husbandry • Floriculture, Horticulture, Apiculture and Cultivation of Vegetables & Mushrooms under controlled conditions • Development and Production of seeds and planting material • Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture • Services related to agro and allied sectors	100%	Automatic
Plantation Sector • Tea sector including tea plantations • Coffee plantations • Rubber plantations • Cardamom plantations • Palm oil tree plantation • Olive oil tree plantations	100%	Automatic
Mining Mining and Exploration of metal and non-metal ores including diamond, gold, silver and precious ores but excluding titanium bearing minerals and its ores	100%	Automatic
Mining (Coal & Lignite)	100%	Automatic
Mining Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities	100%	Government
Petroleum & Natural Gas Exploration activities of oil and natural gas fields, infrastructure related to marketing of petroleum products and natural gas, marketing of natural gas and petroleum products etc	100%	Automatic
Petroleum & Natural Gas Petroleum refining by the Public Sector Undertakings (PSU), without any disinvestment or dilution of domestic equity in the existing PSUs.	49%	Automatic
Defence Manufacturing	100%	Automatic up to 49% Above 49% under Government route in cases resulting in access to modern technology in the country
Broadcasting • Teleports(setting up of up-linking HUBs/Teleports) • Direct to Home (DTH) • Cable Networks (Multi System operators (MSOs) operating at National or State or District level and	100%	Automatic

undertaking upgradation of networks towards digitalization and addressability • Mobile TV • Head end-in-the Sky Broadcasting Service(HITS)		
Broadcasting Cable Networks (Other MSOs not undertaking up gradation of networks towards digitalization and addressability and Local Cable Operators (LCOs))	100%	Automatic
Broadcasting Content Services • Terrestrial Broadcasting FM(FM Radio) • Up-linking of 'News & Current Affairs' TV Channels	49%	Government
Up-linking of Non-'News & Current Affairs' TV Channels/ Down-linking of TV Channels	100%	Automatic
Print Media • Publishing of newspaper and periodicals dealing with news and current affairs • Publication of Indian editions of foreign magazines dealing with news and current affairs	26%	Government
Publishing/printing of scientific and technical magazines/specialty journals/ periodicals, subject to compliance with the legal framework as applicable and guidelines issued in this regard from time to time by Ministry of Information and Broadcasting.	100%	Government
Publication of facsimile edition of foreign newspapers	100%	Government
Civil Aviation – Airports Green Field Projects & Existing Projects	100%	Automatic
Civil Aviation – Air Transport Services • Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline • Regional Air Transport Service (Foreign Airlines are barred from Investing in Air India)	100%	Automatic up to 49% Above 49% under Government route 100% Automatic for NRIs
Civil Aviation • Non-Scheduled Air Transport Service • Helicopter services/seaplane services requiring DGCA approval • Ground Handling Services subject to sectoral regulations and security clearance • Maintenance and Repair organizations; flying training institutes; and technical training institutions	100%	Automatic
Construction Development: Townships, Housing, Built-up Infrastructure	100%	Automatic
Industrial Parks (new & existing)	100%	Automatic
Satellites- establishment and operation, subject to the sectoral guidelines of Department of Space/ISRO	100%	Government
Private Security Agencies	74%	Automatic up to 49% Above 49% & up to 74% under Government route

Telecom Services	100%	Automatic up to 49% Above 49% under Government route
Cash & Carry Wholesale Trading	100%	Automatic
E-commerce activities (e-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.)	100%	Automatic
Single Brand retail trading Local sourcing norms will be relaxed up to three years and a relaxed sourcing regime for another five years for entities undertaking Single Brand Retail Trading of products having 'state-of-art' and 'cutting edge' technology.	100%	Automatic up to 49% Above 49% under Government route
Multi Brand Retail Trading	51%	Government
Duty Free Shops	100%	Automatic
Railway Infrastructure Construction, operation and maintenance of the following • Suburban corridor projects through PPP • High speed train projects • Dedicated freight lines • Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities • Railway Electrification • Signaling systems • Freight terminals • Passenger terminals • Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivity to main railway line • Mass Rapid Transport Systems.	100%	Automatic
Asset Reconstruction Companies	100%	Automatic
Banking- Private Sector	74%	Automatic up to 49% Above 49% & up to 74% under Government route
Banking- Public Sector	20%	Government
Credit Information Companies (CIC)	100%	Automatic
Infrastructure Company in the Securities Market	49%	Automatic
Insurance • Insurance Company • Insurance Brokers • Third Party Administrators • Surveyors and Loss Assessors • Other Insurance Intermediaries	49%	Automatic
Pension Sector	49%	Automatic
Power Exchanges	49%	Automatic
White Label ATM Operations	100%	Automatic
Financial services activities regulated by RBI, SEBI, IRDA or any other regulator	100%	Automatic
Pharmaceuticals (Green Field)	100%	Automatic

Pharmaceuticals (Brown Field)	100%	Automatic up to 74% Above 74% under Government route
Food products manufactured or produced in India Trading, including through e-commerce, in respect of food products manufactured or produced in India.	100%	Government