CHAPTER II

Trade and Investment Policies of India:
With Special Focus on FDI Reforms

Abstract:

Attempt has been made in this chapter to review various policy initiatives of the Government of India to augment trade and investment over the years since 1948. The industrial policy resolutions of 1948, 1956, 1977, 1980, 1991 and the annual policies after 1991 suggest some of the FDI reforms. Moreover, the strategies i.e., import substitution and export promotion adopted by Government of India in 1950s and 1970s are also reviewed.

2.1. Introduction:

Globally FDI is seen as a source of non-debt inflows and is increasingly being used as a vehicle for transfer of technology, skills, management and accession of foreign markets. FDI policy framework is one of the important determinants of FDI among others such as interest rates, exchange rate, GDP, openness, productivity, natural resources, labour force, infrastructure etc. A dominant view that has emerged in recent times is that no country can isolate itself from globally increasing market integration and manufacturing bases and the increasing globalisation of technology, skills, research and development. The increasing globalisation has activated the countries desire to be recipient of FDI (Jha, 1999) so that they can engage with the global economy.
India’s performance in terms of competitiveness, infrastructure and skills are poor. But India has a huge domestic market and fast growing economy with continuous reforms which have been able to attract FDIs in recent times (Jha, 1999). Several instruments under quantitative restrictions or tariffs had been applied to restrict specific imports and also to exports of specific commodities (Balakrishnan et al., 2002).

The success of export-led growth in South East Asian economies and the New Economic reforms (NER) in 1991 were the events that changed India’s attitude towards an open economy and FDI (AbuAl-Foul and Soliman, 2008). India adopted the import-substitution strategy for industrialisation and it was a closed economy until the New Economic Reform (NER) of 1991. The main objective of NER was to transform India from a closed, centrally planned economy to open and market oriented economy (Xuan and Xing, 2008).

Dollar et al. (2002) argued that the most important development in the World economy in the past two decades is major developing countries such as China and India had altered their strategies and integrated more actively in the global economy. Further, they said that, on an average, the developing countries have been getting good results which have been actively integrated in the global economy. Noorbakhsh and Paloni (2001) pointed out a necessary requirement to attract FDI into a developing country is that the policy makers should be aware of the evolution in the structural characteristics of FDI and understand the changing needs of the MNCs.

This chapter concerns the impact of India’s trade and investment policies on attracting the foreign capital and how it helps the Indian economy to participate more actively in international trade. The rest of the chapter has been organised as
follows: the second section deals with defining Trade Strategies and Trade and Investment Policies. In the third section, a brief history of Indian economy covering the pre-British and British dominated economic situations is tried to be portrayed. Fourth and fifth sections deals with the review of post-independence economic policies till 1990 and the post reform economic policies after 1991, during which substantial liberalisation takes place and the effects of globalisation can be noticed. The Chapter ends with the summary of India’s trade and investment policies in the sixth and last section.

2.2. Trade Strategies and Trade and Investment Policies:

Although free trade maximises world output and benefits all countries, still the countries impose some restrictions on free flow of international trade. Since these restrictions are associated with trade and commerce, these policies are known as trade policies (Salvator, 2012). Trade policies include some tax on international transactions and subsidies on others, legal limits on the value or volume of some imports and exports. Historically the most important trade restriction has been the tariff (Krugman and Obstfeld, 2004). Tariffs can be ad valorem, specific or compound. Besides tariffs, other types of trade barriers are import quotas, voluntary export restraints, anti-dumping actions etc. The importance of these non-tariff barriers has gone up in recent times as tariffs have been negotiated down since the post-World War II period (Salvator, 2012).

On the other hand, investment policies imply where the government invest their scarce resources and in which industries. After World War II many developing countries attempted to accelerate their pace of development by limiting imports of manufactured goods and producing it domestically to serve their own markets
(Krugman and Obstfeld, 2004). This strategy is popularly known as the import substitution strategy and the main reason for adopting this strategy is to protect their infant industries. Therefore, the basic strategy of the developing countries for industrialisation was to develop industries which can serve the domestic market and restrict the imports through tariffs and other non-tariff barriers.

But the countries that pursued import substitution strategy showed no signs of development of domestic manufacturing sector instead led to stagnation of per capita income (Krugman and Obstfeld, 2004). This can be seen from our Indian experience, when India adopted import-substitution strategy of industrialisation during 1950 to 1970, the per capita income grew at a very slow rate. This was also true for Argentina and Mexico in 1980. The critics of import substitution industrialisation also argued that the strategy aggravated the income inequality and unemployment situation (Krugman and Obstfeld, 2004).

The failure of the import-substitution strategy had been widely accepted and the export led growth strategy was adopted as a development strategy for industrialisation in the developing world through reforms in tax system and generous incentives (Krugman and Obstfeld, 2004; AbunAl-Foul and Soliman, 2008).

2.3. A brief History of India’s Pre-Independence Trade Policy:

In the pre-colonised period, India’s economy accounted for nearly one quarter of World’s economic output (Malon and Chaturvedy, 2009). India’s wealth under the Mughal and Maratha dynasties attracted the foreign traders and aspiring conquerors from Europe and elsewhere. India was a major factor in global trade. To
give an example, India’s share of world income was 22.6% in 1700 which was almost equal to that of Europe and it collapse to 3.8% in 1952.

The European colonization began with Portuguese advent into India in the 16th century and later took off by the British, which initiated trade with India and gradually changed the nature of Indian economy (Malon and Chaturvedy, 2009). Recognising the strategic importance of India, the East India Company established a wider British presence in India. India missed out the industrial revolution and her economy stagnated and served as a market for Britain’s manufactured products. The British brought all the useful resources from India to Britain, while the relative weight of the Indian economy was fell through a deliberate deprivation of trade with the rest of the world and the average effective economic growth rate was zero during the two centuries of British rule (Malon and Chaturvedy, 2009).

However, Bagchi (1972), as cited by Majumdar (2005) stated that India has had a long history of foreign investment after 1900 and particularly between 1919 and 1947 and there had been a considerable improvement in Indian entrepreneurship. At Independence, the major share of capital in Indian industry was foreign owned [Kidron (1965) as cited by Majumdar (2005)] and India was host of a large body of foreign capital. Moreover, as a characteristics of colonial heritage, foreign investment was concentrated in extractive industries e.g., tea plantation, ancillary industries and cotton mills (Majumdar, 2005).

After the end of colonial rule, India inherited a stagnant and one of the poorest economies in the world. Industrial development was stagnant and its agricultural production was unable to feed its rapidly rising population. India got
independence in 1947. After Independence, India initiated their own foreign policies and tried to promote their policies very cautiously.

2.4. Trade and Investment Policies between 1947 and 1991:

The strategic objective of Indian policy makers was the creation of a self-reliant economy and reduction of poverty (Roy, 1995; Rajan and Sen, 2000). With these objectives, India pursued a state directed heavy industry based industrialisation. To promote industrial growth and development, the Government of India introduced the Industrial Policy Resolution (IPR), 1948 which emphasised on the economy’s increased production and equitable distribution. The Industrial Policy Resolution, 1948 recognizes the role of FDI but the emphasis was that ownership and control of all the enterprises involving foreign capital should lie in India’s hand (Jha, 1999). This Resolution defined the functions of the state and private enterprises, including private foreign capital in industrial development. State control was divided into three categories: a sector which was exclusive monopolies of the state, new industries were under state ownership and industries open to the private sector. Foreign capital was supposed to fill any deficiencies in indigenous industrial capacity (Roy, 1995).

On 6th April, 1949 Nehru made a statement on foreign investment in India as cited by Chenoy (1985) in the Constituent Assembly wherein the strict regulation of foreign capital was discarded. As he stated:

“Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country.... but also because in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital” [Nehru as cited by Chenoy (1985)].
This statement shows the importance of FDI as a means to fill the gap of capital, scientific, technical and industrial knowledge in India. In another statement Nehru assured the foreign investors to have control of a concern for a limited period if the government found it is to be national interest.

Jawaharlal Nehru (1947) as cited Malon and Chaturvedy (2009) stated the interpretation of the relationship between foreign policy and economic policy as “….foreign policy is the outcome of economic policy, and until India has properly evolved her economic policy, her foreign policy will be rather vague, rather inchoate, and will be groping”. Soon after independence, faced with this dilemma, Indian government introduced a new version of state planning and control over economy (Malon, and Chaturvedy, 2009). The government believed a dominant role of the state for rapid growth of industry and agriculture and adopted the strategy of import substituting industrialisation which discouraged foreign investment.

In a nutshell, the economic situation during that time was such that, the import substitution policy framework gave no importance to exports and an autarkic approach was chosen over international trade. India relied on public sector enterprises; private sector and FDI were discouraged. The price mechanism was not allowed to function as the government controlled every aspect of the industry, competition was discouraged. License was all pervasive and labour laws were highly protective.

2.4.1. End of Import Substitution Strategy:

The import substitution strategy was ended in the early 1960s (May, 1961) and the government made a statement on the role of FDI on India’s economic development. This provided due permission for foreign capital to invest in 26
industries which were under schedule A and Schedule B of 1956 IPR (Chenoy, 1985). Therefore, the key industries formerly reserved for the public sector were opened up for foreign private capital as well as the big Indian bourgeoisie. Singer and Roy (1993) as cited by Roy (1995) justified the accommodation of foreign capital under the third plan in 1960s to fill the resource constraints gap. For example, the chemical fertiliser industry was relaxed the terms and conditions of gaining foreign financial support, technology, know-how and participation of MNCs.

In 1963, the government set up the Industries Development and Procedures Committee popularly known as 'Swaminathan Committee' and as a consequence of the committee’s recommendations the government further relaxed industrial licensing policy in June, 1964. The government agreed to give priority treatment in licensing to 8 industries and greater foreign capital was permitted to the areas earlier reserved for the public sector (Chenoy, 1985).

By the mid-1960s, India experienced a slow economic progress because of external setbacks, notably border war with China and Pakistan in 1962 and 1965 respectively. External pressures from IMF, World Bank and from USA to liberalise the restrictions on trade took place (Malon and Chaturvedy 2009; Chenoy, 1985). India responded by reducing export subsidies and import tariffs along with the devaluation. In June 1966, much of the relaxation of industrial regulation began during this period. These liberalisation in industrial policy increased the volume of foreign business investment in the manufacturing sector and given up the import substitution policy in the late sixties and replaced by export oriented growth strategy by the early seventies (Chenoy, 1985).
During 1950s and 1960s, foreign aid played an important role in India’s economic development process (Malon, and Chaturvedy 2009). During these days, foreign aid was of great benefit to India, because, developing countries used foreign aid to reduce the balance of payments deficits and to increase investment rather than consumption. Some evidences support that foreign aid helped in increasing investment in India (Malon and Chaturvedy, 2009).

The move towards an export oriented policy was indicated by the new industrial licensing policy announced on 8th February, 1970. The Foreign Exchange Regulation Act (FERA) was also enacted in 1973 and aimed at ensuring conservation and proper utilisation of foreign exchange but not explicitly refer to the regulation of foreign capital. Under FERA, permission would require for the companies with 40 per cent foreign equity and MNCs were allowed to retain foreign equity up to 74 per cent on the grounds that they would bring sophisticated technology and export substantial quota of their production (Chenoy, 1985).

To review the various aspects relating to concentration of economic power and operations of industrial licensing as suggested by Industrial Development and Regulation Act, 1951; Monopolies Inquiry Commission was set up in 1964. Moreover, the Industrial Licensing Policy Inquiry Committee was constituted in 1967 and recommended that licenses should be given only in setting up of core and heavy industries. The Monopolies and Restrictive Trade Practices (MRTP) was introduced in 1969 to enable the Government to control the concentration of economic power.
2.4.2. Industrial Policy Resolution, 1977:

During this period, the growth of industrial output was low; incidence of industrial sickness was widespread and industrial cost and prices distorted. In this backdrop, the IPR, 1977 emphasises the decentralisation of industries with increasing role of small, tiny and cottage industries. Until 1970s, the trade policies focus was on regulating the foreign exchange through quantitative restrictions (Das, 2004). The attitudes towards foreign firms were ambiguous during these years and the limiting foreign ownership was 40 per cent till 1991 (Tyabji, 1980; Majumdar, 2005).

With the view to promote technological self-reliance, Government recognises the necessity of foreign technology and set up national registry of foreign collaboration. Moreover, the foreign investment and existing foreign companies under FERA was allowed to invest only 40 per cent. Foreign investment and technology necessary only for India’s industrial development was allowed and the areas where it was not necessary existing collaborations were not renewed. For all approved investment, there was freedom for remittance of profits, dividends, royalties and repatriation of capital. Although the majority of the ownership and control was in Indian hands, exceptions were there in case of highly export-oriented units and sophisticated technology areas. Government considered a fully owned foreign company in the case of 100 per cent export oriented units. The Government gave emphasis on manufacturing exports, and exemptions of customs/excise duties on inputs were given in case of wholly-export based activities. Moreover, compulsory export obligations were imposed and new industries as the import of raw materials and capital goods required by the industries were paid through future exports.
Since 1980, the policies toward foreign private capital had been further liberalised. This was indicated by increased foreign collaboration agreements approved by the government (Chenoy, 1985) and the trend of foreign collaboration has been accentuated since then. Moreover, the foundation of competitive export base and FDI were laid down and gave productivity as the central concern of all economic activities. This created an environment for industrial growth in the Seventh Plan, basic industries were set up and a broad base infrastructure was built up (DIPP).

2.4.3. Start of Reform or Liberalisation Process:

Although the relaxation process was started in the early 70s, major reforms were taking place between 1985 and 1988. As a consequence, the GDP growth and the external performance registered a dramatic improvement (Panagariya, 2004). During this period, several export incentives were introduced and this helped to expand imports directly when imports were tied to exports and indirectly by relaxing the foreign exchange constraint (Panagariya, 2004). Joshi and Little (1994) as cited by Panagariya (2004), list the export incentives introduced during this period. These are- 50 per cent business profits attributable to exports were made income tax deductible in 1985, and 100 in 1988, interest rate on tax credits were reduced from 12 per cent to 9 per cent, duty free imports were allowed to important export industries etc.

The liberalisation can be seen in the industrial controls also. In 1985, 25 industries were de-licensed. The investment limit below which no industrial license would require was raised to Rs. 500 million in backward areas and Rs. 150 million elsewhere. Broad banding of firms was introduced in 1986 which allowed firms to
switch production between similar product lines e.g., trucks and cars. Firms that came under the purview of MRTP Act were subject to different rules and regulations could not take advantage of these liberalisation measures. To relax these changes to the large firms too, asset limit above which firms were subject to MRTP regulations raised from Rs. 200 million to Rs. 1000 million. Price and distribution controls on cement and aluminium were abolished. The multi-point excise duties were converted to modified value added tax (MODVAT) which enabled manufacturers to deduct excise paid on domestically produced inputs and countervailing duties paid on imported inputs from their excise obligations on output (Panagariya, 2004).

2.5. Trade and Investment Policies in 1991:

The macroeconomic imbalances in 1991 and a gradual depletion of foreign exchange reserves threatened the sustainability of India’s growth rate and made the economy vulnerable to shocks (Malon and Chaturvedy 2009). These were the consequences of deteriorating internal economic basics and worsening external balances. The rising external debt, collapse of Soviet Union (India’s largest trading partner) and the first Gulf war contributed a serious balance-of-payment crisis in India (Aghion et al., 2006; Malon and Chaturvedy 2009). To overcome this situation, International Monetary Fund (IMF) provided assistance under the condition that India had to implement a structural adjustment programme (Aghion et al., 2006).

The gross fiscal deficit rose from 9 per cent of GDP in 1980-81 to 12.7 per cent in 1990-91. The GDP growth rate declined from 6.9 per cent in 1989-90 to 1.1 per cent in 1991-92. The internal debt of the government accumulated rapidly raising from 35 per cent of GDP in 1980-81 to 53 per cent of GDP in 1990-91. This crisis became more severe as India’s hard currency reserves fell to US$2.1 billion in
payments to the multilateral financial institutions in 1990-91 (Malon and Chaturvedy 2009).

Facing with this grim economic conditions, the government launched a series of reforms in the industrial policy statement 1991 (Makhija, 2006; Malon and Chaturvedy 2009) focusing on freeing up the investment and trade regime, reforming the financial sector, modernizing the tax system and divesting public sector enterprises. But liberalisation was already underway during the 1980s and it played a crucial role in stimulating growth (Panagariya, 2004), but 1991 reforms provide a more systematic series of liberalisation which gave resulted to more sustainable growth.

The industrial policy statement, 1991 was concentrated on three things, removal of quantitative restrictions, lowering and rationalising of tariffs, and changing the emphasis of the export incentive system (Das, 2004). One of the main objectives of 1991 industrial policy was: to obtain higher technology, increase exports and to expand the production base; foreign investment and foreign technology collaboration was welcomed.

As the Indian industries were freed from official controls, opportunities for foreign investment was emphasised (IPS 1991). In view of developed industrial economy in India and significant changes in the world industrial economy, it was much necessary to make the relationship between Indian industries and world industries much more dynamic in terms of both technology and investment. Foreign investment was advocated on the grounds that it would bring advantages of technology transfer, marketing expertise, modern managerial techniques and possibilities for promotion of exports (IPS, 1991). Another reason of favouring
foreign investment was that it would be a source of long term capital through the form of FDI (Jha, 1999). This was necessary in the changing global scenario of industrial and economic cooperation, Indian government welcomed it with the hope of its industrial development through FDI.

In order to attract foreign investment in high priority industries which required large investment and advanced technologies, it was decided to provide approval for direct foreign investment up to 51 per cent foreign equity in such industries (IPS 1991). Moreover, exploration of world markets for Indian exports required systematic and highly professional marketing activities. So far, this expertise was not developed in India. Therefore, the Government of India encouraged foreign trading companies to assist in this field of export promotion.

To inject the desired level of technological dynamism in the Indian industries, Government provided automatic approval for technology agreements related to high priority industries. Moreover, the Indian industries were free to negotiate the terms of technology transfer with their foreign counterparts, hiring of foreign technicians and foreign testing of indigenously developed technologies (IPS, 1991).

2.6. Trade and Investment Policies with Special Focus on FDI Reforms after 1991:

The unprecedented crisis of Indian economy in the late 1980s and early 1990s was overcome by concrete policy reforms initiated by the Government of India under New Economic Reforms 1991. The improvement of these policy measures were reflected in the successful mobilisation of external financing, build-up of foreign exchange reserves, resorted international confidence and provided the basis
of further liberalisation of trade, tariff, export and foreign investment policies in the succeeded years.

The Government had consistently pursued the objective of attracting foreign investment since 1991 to increase the resource availability in the field of infrastructure and other critical areas. A number of policy measures were undertaken to attract direct and portfolio investment since then. India signed the Multilateral Investment Guarantee Agency (MIGA) protocol for the protection of foreign investment in 1992, provisions of FERA were liberalised, setting up of Investment Promotion and Project Monitoring cell in the Department of Industrial Development, reduction of peak import tariff from 150 per cent to 100 per cent and restructured the taxation of capital goods to allow inflation accounting (Bajpai and Sachs, 2000).

A compositional shift in the capital account began in 1993-94 when the share of concessional and commercial debt creating inflows in total capital inflows was declining (Economic Survey, 1994-95). In 1994, RBI announced liberalisation of exchange control regulations relating to exchange earners, basic travel quota, gift remittances, donations and payment of certain services rendered by foreign parties. Besides, automatic approval of up to 50 per cent foreign investment for all bulk drugs and formulations excluding a few, reduction of import duties, reduction of corporate tax, five-year tax holiday to new industrial undertakings etc. (Bajpai and Sachs, 2000)

Foreign investment was also liberalised to 35 high priority sectors, export trading houses, hotel and tourism industry, 100 EOU s, FTZ and ETZ, sick industries, mining, telecom, power, medical, small scale industries, housing and real
estate, portfolio investment, government securities and private sector mutual funds (Bajpai and Sachs, 2000). Government allowed automatic approval up to 74 per cent of FDI in 9 categories of industries. The Government also announced first ever guidelines of FDI for speedy approval of areas which were not covered under automatic approval. But these FDI approvals were subject to sectoral caps, e.g., 20 per cent in banking sector, 51 per cent in NBFCs, 100 per cent in power, roads, ports, tourism and venture capital funds, 49 per cent in telecommunications, 100 per cent in petroleum, 50 per cent in mining, 40 per cent in domestic air-taxi, 24 per cent in SSIs, 51 per cent in drug and pharmaceutical industry etc. Priority areas mentioned in the proposal were infrastructure, export potential, employment generation and items related to farm sector, social sector, health and medicine etc. The FIPB allowed 100 per cent foreign equity in those cases where the foreign company expressed inability to find an Indian joint venture subject to the condition that the company had to divest 26 per cent of its equity in favour of Indian parties within three to five years.

The Global financial markets witnessed an unprecedented tension due to the **East Asian Crisis** started in July 1997 which affected the emerging economies as investment destinations. To encourage foreign investment measures such as automatic approval scheme of RBI had been expanded, and the government had tried to place all items under the automatic rout for FDI/NRI/OCB investment except those falls under industrial licensing. The proposals for investment in Public Sector Units (PSUs), Export Oriented Units (EOUs), Export Processing Zones (EPZs), Electronic Hardware Technology Parks (EHTPs), and Software Technology Parks (STPs) were eligible for automatic approval. The Budget permitted 74 per cent FDI in bulk drugs and pharmaceuticals under automatic route. To provide a
single point interface between Government and foreign investors a Foreign Investment Implement Authority (FIIA) was set up along with a project monitoring units for facilitating implementation of projects having foreign equity of Rs. 100 crore and above.

Other decisions taken to further liberalise FDI policy includes, 100 per cent FDI permitted for Business-to-Business e-commerce and oil refining, removed the cap of investment in the power sector, 100 per cent FDI allowed in SEZs and telecommunication sector, Offshore Venture Capital Funds/Companies allowed to invest in domestic venture capital undertakings, FDI up to 26 per cent is eligible under automatic route in the insurance sector, automatic route is available to proposals in the information technology sector etc.

The volume of private capital inflows and official capital flows to emerging markets were reduced in the aftermath of the East Asian crisis. India was one of the most resilient performers in developing Asia and expected receive higher capital inflows. The volume of foreign capital flows to emerging markets improved rapidly in 2003. An encouraging feature of these foreign capitals was the significant share of FDI. A committee was constituted by DIPP in 2002 to bring the reporting system of FDI data in India for international best practices. Accordingly, the RBI had revised the FDI data from 2000-01 onwards. According to the new definition, FDI inflows comprised ‘equity inflows, reinvested earnings and other capital’. ‘Equity flows include equity in branches and shares in subsidiaries and other capital; reinvested earnings include retained earnings of foreign subsidiaries and affiliates and other capitals include inter-company debt transactions (Economic Survey, 2003-04). It was seen that adoption of a broader system of FDI resulted an upward revision of annual FDI inflows in 2001-02 and 2002-03.
The rising trend of FDI flows to India was continuing and it was the results of reform policies, better infrastructure and a more vibrant financial sector. The annual trade policy measures included reduction in the peak rate of customs duties, reduction in custom duty on polyester fibres, yarn, cut and polished diamonds, synthetic stones, raw materials, textile machinery etc.

The industrial sector faced a sharp slowdown due to the successive shocks of the Global Financial Crisis in 2008-09 and the slowdown was accelerated by the worst international financial situations and global economic outlook. The annual trade policy measures of Government of India and RBI tried to mitigate the effects of global economic recession. Stimulus packages were given to help the export sector and the sectors affected by the recession that were likely to be affected by the global economic recession. Besides these, the Government had taken steps to promote trade infrastructure development and trade facilitation measure, single window clearance for the proposals for setting up inland container depots, container freight stations, and air cargo complexes; to deal with the issues related to infrastructure required for exports and imports, a core group of secretaries under the chairmanship of Cabinet Secretary had been constituted; to promote exports from the North East Region, a North East Cell had been set up in the Department of Commerce.

The effects of Global Recession lingered and it affects the Indian manufacturing sector. Trade policy measures were announced to mitigate the global recession and to check inflation. Various incentive packages were announced to help exports sector and employment intensive sectors. Furthermore, the Foreign Trade Policy 2009-14 was also announced. The various trade policy measures included checking inflation, reduction of import duties, allowing import of raw sugar under...
open general license (OGL), and opened import of raw sugar to private trade for being processed by domestic factories.

FDI was permitted freely in India except a few sectors. Under the policy regimes of that period, the two broad entry options for foreign investors were – FDI was permitted up to a specified level of foreign equity participation and 100 per cent foreign equity participation. The second category of entry options had two subsets—one is sectors having automatic approval and the other is sectors which required prior approval from FIPB.

2.7. Summary:

The Indian government had made an investor friendly policy on FDI to ensure that India remained an attractive destination of FDI. For this various policy changes had been undertaken – FIPB rules were eased, 'leasing and finance' covers only 'financial leases', reviewed the policy related to calculation of downstream investments, permit FDI up to 51 per cent in multi-brand retail trading, amended the policy on single brand retail trading, permitted foreign investment up to 49 per cent in power exchanges, permit Non-Banking Financial Companies (NBFCs) having foreign investment above 75 per cent and below 100 per cent etc. (Economic Survey, 2012-13).

In the next chapter the trend and pattern of FDI inflows as well as trend and pattern of India’s exports since 1970 till 2015 are analysed.

Note: Section 2.6 is based on Economic Survey, Various Issues.
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