

# India's Investment Environment – June 2008

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#### I. Introduction

Global economic slowdown and spiralling inflation may adversely impact realisation of the foreign direct investment (FDI) targets of US\$35bn in the current fiscal. India received about US\$25bn FDI against its target of US\$30bn in the last fiscal 2007-08. However, Indian real estate and housing emerged as the favourite sector for foreign investors by attracting a five fold increase in FDI equity inflows over the fiscal year 2006-07.

#### II. Expected Changes in FDI Rules

The following changes in FDI rules are expected in the near future:

- i Liberalisation of licensing norms to set up industrial units in the standard urban area limit of cities. The new norms scrap compulsory licensing requirements by deleting rules governing location under the Industries (Development and Regulation) Act, 1951. Prior to this decision, industrial undertakings to be located within 25 kms of the standard urban area limit of cities having a population of one million as per 1991 census required an industrial license under the Industries (Development and Regulation) Act, 1951. The exemption was provided to only non-polluting industries, such as electronics, computer software, printing and other specified industries. Now with changed norms all industrial units are exempted from the compulsory licensing.
- ii The Government of India also signed a Bilateral Investment Promotion Agreement (BIPA) with Myanmar to facilitate greater Indian investment in Myanmar and vice versa.
- iii India and US have decided to launch formal negotiations for a BIPA. India has BIPAs with most of its key trading partners, including Australia, France, Germany, the UK and Russia. US is the only key partner which it does not have an agreement with.
- iv In contrast to earlier reports, the Government has decided not to scrap Press Note 1 of 2005, which protects the interest of domestic companies from its foreign joint venture partners by mandating that the foreign companies would have to obtain their approval before making a fresh investment in the same sector in India.
- v The Government issued the DIPP Press Note 7 (2008), summarising the FDI policy and regulations applicable in various sectors and activities after incorporating policy changes up to March 31, 2008. The Press Note is available on DIPP website <http://dipp.nic.in/>

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