FOREIGN DIRECT INVESTMENT IN TAMIL NADU: REVIEW AND COMPARISON ACROSS HOST SITES

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ABSTRACT

There are several reasons that foreign direct investment has a significant impact on economic growth. In particular, foreign direct investment (FDI) impacts five variables—domestic investment, technology, employment generation and labor skills, the environment, and export competitiveness.

This paper examines the rationale for increasing FDI and briefly examines global trends in FDI. It looks at FDI trends in Tamil Nadu and compares the state as a host site for FDI with other host sites in Asia and the rest of the world. A detailed appendix summarizes the current state of FDI legislation in the state.

1. Why Does FDI Matter?

Why does foreign direct investment matter to economic development? There are several reasons that foreign direct investment has a significant impact on economic growth; this impact is magnified in a growing economy. In particular, foreign direct investment (FDI) impacts five variables—domestic investment, technology, employment generation and labor skills, the environment, and export competitiveness. We will summarize these arguments below.

This paper is divided into three sections. The first examines the rationale for increasing FDI and briefly examines global trends in FDI. The second looks at FDI trends in Tamil Nadu. The third looks at other host sites and compares them with TN as a host site. An appendix summarizes the current state of FDI legislation in the state.

Investment

There are two competing theories regarding the effect of FDI on domestic investment. One is that FDI encourages domestic investment by providing new markets, demand for inputs and new technology that spills over into the economy. Labor is mobile and often moves from multinational firms to domestic firms; more skilled labor may leave a multinational firm to form a start-up. Researchers also believe that FDI can serve to increase competition thereby making markets (including financial markets) more efficient. Finally, investment in new sectors can stimulate the growth of new industry and new products.

The opposing view is the FDI crowds out domestic investment by being a monopolistic competitor. Domestic firms are simply not able to compete with foreign firms in terms of their advertising power, ability to dominate the market and engage in predatory pricing to prevent entry. Researchers also believe that FDI crowds out domestic investment by raising the demand for money and consequently interest rates as well. Also, if financial inflows are very large, they can raise the rate of exchange, making the country’s exports less attractive. However, there is a general consensus in the literature that crowding out is not a major problem with regard to FDI. Rather the benefits of FDI are quite visible in terms of increased competition, efficiency and innovation.

Employment

There is a general consensus in the literature that FDI has a positive effect on employment. The availability of inexpensive labor is often the main reason that foreign firms choose to enter a country. In addition, the quality of the labor force plays an important role. Countries that are most

attractive to foreign firms are those with literate, relatively skilled labor forces. Foreign firms are often dominant sources of employment, generating hundreds, if not thousands, of jobs in the region where they are located. Foreign firms provide jobs in manufacturing plants, mines, and services. They also generate employment in firms that are suppliers; these firms may either be local firms or other foreign firms that are attracted to the region because of the market provided by the foreign firm. In the long term, some of this employment generation may be mitigated by layoffs to increase efficiency. But long-term employment generation may also be higher than jobs generated in the short-term if the firm is able to compete in the international marketplace.

Foreign firms are also often significant employers of women. Industries such as textiles and electronics often employ labor that is predominantly female; in some cases, this percentage of female workers is over 90 percent. It is also well documented that a significant part of the earnings of female workers are consistently allocated to the nutrition, health and well being of their children. Therefore, the increase in wages from employment by foreign firms often increases nutrition levels, expenditures on healthcare and the quality of life.

The controversy surrounding multinationals rests not on whether or not they generate employment but on working conditions within their factories. There is considerable concern that foreign firms exploit their workers, by stipulating long working hours in very difficult environments. The "sweatshop" nature of textile firms and other multinational enterprises has led to public outcry and various attempts to monitor working conditions and enforce basic labor standards. Several multinational firms have also made efforts to address this situation.

Technology Transfer

Do foreign firms bring new technology into their host countries? And do they encourage domestic firms to innovate? There are two opposing theories for each of these questions. Most researchers agree that foreign firms do bring new technology into their host countries. Often, this is the best way for the host country to acquire both mature as well as new technology. These technologies have often increased productivity of labor and capital, improved the standardization of the product, and reduced error rates in production.

Investment in new technologies by foreign firms has also contributed in many countries to the upgrading of the overall stock of capital. Foreign firms are often the only firms capable of mobilizing the financial resources necessary to bring new technology into the host country. They are also generally more efficient in raising and using financial resources. This is in

part because internalized transfers are generally more efficient than arm's-length transactions. They allow firms in the host country to have access to the parent company's technology without the restrictions on accessibility and use that accompany licensing arrangements. Furthermore, they also allow access to "tacit" knowledge, which can sometimes be more important than codified information. There is plenty of evidence to indicate that technology acquired via foreign direct investment is far better used than technology acquired via licensing or other external arrangements.

On the other side, some researchers argue that technology introduced by foreign firms is often inappropriate for the host country. They argue that foreign technology is often much too capital-intensive, particularly in countries where unemployment runs high. Critics are also vocal about the export of pollution-intensive technologies from developed countries where these technologies are no longer allowed. Finally, it is argued that sometimes, external transactions allow foreign technology to be acquired more cheaply (particularly if the technology is mature).

The second issue that emerges in the literature focuses on the relationship between foreign technology and domestic innovation. After several decades of research, this question also remains open. On the one hand, the theory is that there are technological spillovers from foreign firms into the domestic sector. Spillovers occur through a variety of channels—employees move from foreign firms to local ones, technology is observed and copied by local firms, and supporting technologies are developed in response to demand generated by the foreign firm. Sourcing of inputs also serves as a major stimulus to technological development. Foreign firms often buy inputs from local firms, thereby motivating them to become more efficient and to engage in cost-cutting innovations.

On the other hand, researchers argue that FDI crowds out domestic investment in technology. Large foreign firms prevent domestic firms from innovating, by capturing a large market share and thereby lowering demand for products made by domestic firms, or by cornering the market for high-skilled labor, thereby depriving domestic firms of this resource. It is generally believed that foreign firms by and large do generate some technological development in the host country.

Environment

Multinational firms are one of the main foci of environmental groups. These groups have expressed strong concerns about the fact that foreign firms operating in situations where rules are either non-existent or not enforced have greatly exceeded emissions and effluent levels allowed in their home countries. Critics point to areas such as the U.S.-Mexican

border, where *maquiladora* firms have polluted the land, water and air to alarming levels. Multinational firms have also been accused of taking advantage of poor and unenforceable rules and of exercising significant political influence to prevent the imposition of rules regarding the environment.

On the other hand, a smaller amount of research shows that multinational firms may introduce cleaner technologies into developing countries to replace old, outdated and pollution-intensive capital equipment. One way of resolving this debate is to look at the stock of FDI in developing countries and do an "environmental profile." Are technologies in developing countries more polluting than those in developed countries? Econometric analyses of the "pollution haven" hypothesis do not confirm this notion, but case studies of individual firms do show that they shifted to environmentally lax countries in order to avoid enforcement of strict laws. However, in general, the cost of enforcement is not high. Multinational firms are driven by labor costs to a much greater extent than environmental laws. Thus, host countries should be encouraged to enforce environmental regulations; all the available evidence indicates that this will not lead to significant shifts in the location of multinational firms.

Export Competitiveness

Foreign firms often help to increase export competitiveness in the host country. This is accomplished in three ways. Foreign firms often bring in dominant technologies that help to standardize the product, thereby making it suitable for export. Foreign technology also helps to increase production, reduce error rates and improve the quality of the product. All of these facts are helpful in international markets. Foreign firms have a strong advantage when it comes to marketing. Subsidiaries in the host country can often take advantage of a well-established distribution system to market and sell their products. Multinational companies also have better access to trade finance and better transportation and warehousing facilities than their local counterparts. They may also have better access (with lower tariff rates) to developed country markets.

But most importantly, foreign firms bring with them a brand name. This helps to launch a product in international markets, as well as to increase its market share. Foreign firms are usually far more capable than their domestic counterparts of investing in advertising, be present at trade shows and use other promotional methods to raise the visibility of their product in international markets. Thus, FDI has generally had a positive effect on export competitiveness, balance of payments and economic growth.

Majority Ownership

The evidence on FDI increasingly suggests that majority-owned firms perform far better than joint ventures (Ramachandran, 1993 and Ramachandran and Shah, 1999). Why is it that foreign subsidiaries are superior performers to firms in which each party owns a 50 percent share? The answer is relatively straightforward, and has to do with incentives. The amount of investment made by the owner of a firm is directly related to his/her control over profits. This in turn is determined by the share of equity controlled by the owner. When the foreign firm controls a majority of equity, it invests far more in the subsidiary firm than when it controls 50 per cent or less. This is because majority equity ownership enables greater control over profits (and management) than minority equity or a 50 per cent stake. Thus, the profitability of majority or wholly-owned subsidiaries has consistently been shown to be greater than that of joint ventures.

Why then do joint ventures persist? There are several possible answers to this question. Many governments are afraid of their lack of control over foreign-owned subsidiaries. Some believe that joint ventures will result in greater benefits to the domestic economy, including technological spillovers. Others are concerned about the political and economic influence of large foreign firms. Still, there is enough evidence to suggest that governments should give careful consideration to wholly-owned subsidiaries. In terms of profitability and consequently of investment (including investment in new technology), these firms are far superior to joint ventures.

2. Global Trends in FDI

Foreign direct investment has historically been concentrated in developed countries, particularly in the US, Japan and Western Europe. In 1998, FDI for the developed countries totaled $460 billion in inflows and $595 billion in outflows. During this year, North-North FDI was largely fueled by high growth rates in developed economies and a flood of mergers and acquisitions among the world's largest transnational companies. In order to increase their competitiveness, companies consolidated their worldwide operations on an unprecedented scale. The value of cross-border mergers & acquisitions reached $544 billion in 1998, a $202 billion increase from the 1997 level. (UNCTAD, 1999).

One of the major forces behind globalization has been the increased participation of developing countries in foreign investment, both as host countries and more recently, as outward investors. Until 1998, the developing country share of global FDI had been increasing annually during the 1990s, reaching 37 percent in 1998. FDI flows jumped from 0.8 percent of developing country GDP in 1991 to 2.7 percent in 1997. Inflows of FDI to developing countries continue to be concentrated in only a few countries. The top five host countries (China, Brazil,

Mexico, Singapore and Indonesia) accounted for 55 percent of FDI inflows to developing countries in 1998. (UNCTAD, 1999).

The Asian financial crisis that began in 1997 was one of the main reasons for the decrease in FDI to developing countries the following year. In 1998 , developing countries attracted $166 billion in inflows of FDI, a four percent decrease from 1997. In addition, economic growth and increased FDI in developed countries during these years pushed the developing country share down. Even though inflows to developing countries increased significantly to $192 billion in 1999, this does not compare to the growth spurt that took place during the mid-1990s.

Finally, in 1998, less than 1.8 percent of global FDI was directed at the Least Developed Countries adding up to less than $3 billion. The 48 countries designated as LDCs by the United Nations are mostly located in Africa. The LDCs hardly participated in the previous growth of the developing country share in overall investment, their percentage adding up to less than 1 percent of global FDI inflows during most of the last two decades (UNCTAD, 1999).

Despite the substantial setbacks that are being experienced from the Asian financial crisis, the Newly Industrializing Economies (NIEs) and Association of Southeast Asian Nations (ASEAN) have completely transformed their economies in a relatively short period of time. The extraordinary success witnessed in this part of the world have spurred other developing countries to follow in their footsteps in the hope of breaking out the sidelines of the global economy and into the ranks of middle income countries. Emphasis in this chapter will be put on the fact that although the highly visible and exciting growth spurts of FDI and GDP growth rates in NIEs and ASEAN countries captured the world's attention they were nurtured by decades of political and economic stability.

South-South Foreign Direct Investment

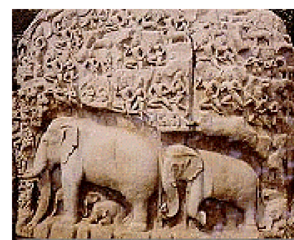
A relatively new trend in global investment flows is evident in FDI originating in developing countries. These flows reached roughly 14 percent of global FDI outflows in 1997, up from 5-7 percent in the 1980s. Since the majority of these outflows originated in East Asia, the financial crisis in that area led to a reduction of 8 percent in FDI originating in developing countries in 1998. (UNCTAD, 1999).

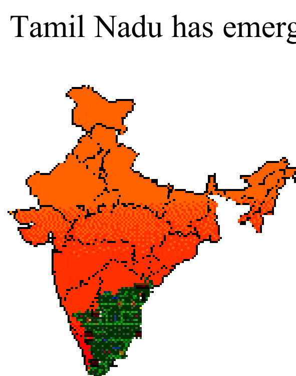
Not surprisingly, about 80 percent of this South-South investment originates in a few of the more successful developing economies; Hong Kong, Singapore, Taiwan, China, South Korea, Malaysia, Nigeria, Brazil, Argentina and Chile. By region, 90 percent of FDI outflows from developing countries came from South, East and South East Asia in 1997. On a stock basis, 90 percent of these Asian outflows were invested within the region. Intra-ASEAN flows fell sharply after 1997, severely affecting Laos, Cambodia, Vietnam and Myanmar, which are very dependent on inflows from neighboring countries.

Investment from South, East and Southeast Asia to Latin America and the Caribbean (LAC) has also been increasing during the 1990s (UNCTAD, 1999). Of the FDI flowing out of the LAC region, a larger percentage is directed toward developed countries (about half, on a stock basis in the early 1990s). This figure may be skewed by Mexico, which directs more FDI to developed economies to the north than its regional partners. Unfortunately, Sub-Saharan Africa has been the least visible in the new South-South FDI trend. The developing countries that do invest in Africa are Asian rather than Latin American.

The majority of developing country FDI outflows are new sources of investment for other developing countries. Possible explanations behind this emerging pattern include the fact the success of some developing countries has increased the differences within the rubric of "developing countries." Even though both investor and host are "developing economies," they are usually heterogeneous in terms of size, level of development, efficiency and technology. Thus, significant comparative advantages can be found in these differences, provided they are not too large as to be prohibitive. (UNCTAD, 1999) Other analysts propose that the increase of South-South investment is partly because investors from Asian countries rely less on national trade promotion organizations or support institutions to pave the way into new markets than developed countries do. (Bhinda et al, 1999) The quantity and success of investment with both origin and destination within ASEAN has been attributed to the fact that investors from neighboring countries are more amenable to joint ventures with local partners, and bring with them more compatible technologies, management styles and products. (Chia, 2000). Some analysts also contend that Asian investors may have more leeway than developed country investors because their environmental and labor rights practices are not as closely watched by non-governmental organizations. (Chia, 2000).

3. FDI in Tamil Nadu





Tamil Nadu has emerged as the third largest economy in India and its current GDP is well over US$23 billion (at official exchange rate) or US$100 billion based Purchasing Power Parity method. The average growth rate of Tamil Nadu economy has been around 6-7 percent per year, consistently above the all-India average. Tamil Nadu has emerged as a major recipient of investments, Tamil Nadu has become one of the most favored investment destinations particularly FDI.

The state has many inherent strengths and competitive advantages to offer to investors.

Tamil Nadu has a strong and stable government with pro-active government policies. It facilitates the creation of foreign and local ventures thanks to an investor-friendly and transparent decision making process, sound diversified industrial infrastructure, comfortable power situation, abundant availability of skilled manpower, harmonious industrial relations and absence of labor unrest, high quality of work culture and peaceful life, best incentives package in the country, highly cosmopolitan in its composition and English is spoken with considerable fluency in the State

The automobile industry has undergone a dramatic transformation in the recent past in Tamil Nadu and in India as a whole. A range of new players across all the segments-passenger cars, commercial vehicles and two-wheelers have vastly expanded the size of the industry and choice to the consumers. Passenger car segment witnessed a great deal of excitement with the entry first of Suzuki and later Daewoo, Peugeot, Fiat Uno, GM, Mercedes and Ford. Projects of Hyundai, Mitsubishi and Toyota are under implementation. Although the impressive rate of expansion of the industry did slow down in last years of the past century prospects of the auto industry are indeed bright.

Responding to the projected growth of the industry, the auto components sector has increased its production from Rs.120 billion in 1996-97 to Rs.230 billion by the year 2000 to meet the requirements of the domestic as well as export markets. For achieving this level of production the investments in the sector have expanded from Rs.60 billions (1996-97) to Rs.100 billion by the turn of the century.

With the introduction of the new generation vehicles, several tie-ups with foreign companies have been put in place for substantial upgrading of technology of the components industry . The sub-sectors which have attracted foreign technology and investment have been automotive electronics, casting and forging, precision electric parts and components, interior and exterior trims, decorative plastics, complete systems and assemblies, safety and environment related equipment.

With vehicle manufacturers from abroad planning to develop Indian component vendors for global sourcing, in view of India's competitive advantages, technology upgrading has become an imperative for the industry. In fact, sustained annual export growth of 20-25 percent is anticipated and annual exports are targeted to reach Rs.35 billion within 5 years from the turn of the century. Tamil Nadu stands ready to benefit from this increased investment.

Tamil Nadu has attracted many major, highly-rated automobile components manufacturing facilities. Recent entry of automobile manufacturers like Ford and

Hyundai has only further reinforced the trends and this sub-sector is expected to attract huge investments for expansion, diversification and technology upgrading. Even a dedicated Park for automotive components is in the works. With Ford, Hyundai Motors & HM-Mitsubishi car Projects Chennai , the Ideal Location for Automotive projects - Ford Motors, Hyundai & Mitsubishi car projects, SAME tractor project & expansion of TAFE, Ashok Leyland - IVECO truck project, etc., have set up mother plants .Component projects namely Engine management systems, Automotive security devices, Plastic & rubber moulded components, Die-cast products & Auto horns have excellent potential in the state.

Ready-made garments including knitted and woven garments sector is the biggest net earner of foreign exchange for India; nearly $5.0 billion exports account for around 15% of the country's total exports. The rate of growth of the sector continuous to be robust on the strength of the country's core competencies: low labor cost, local availability of a variety of yarns and fabrics specifically cotton and a vast pool of entrepreneurial talents. Most of India's exports are low to medium quality cotton-based madeups; high value or high-fashion garments account for only a limited share. Average unit value realisation of garment exports is about $4.5. USA is the largest market for Indian Garments followed by Germany, UK and France. Again, Tamil Nadu is a major player in the country's garment export business. Tirupur, a small town in Tamil Nadu, accounts for a significant share in India's exports of knitted cotton garments. Chennai Centre of National Institute of Fashion Technology could provide institutional leadership to promote design-intensive, high-value garments.

Tamil Nadu has a rich resource endowment. Fruits such as mango, banana, citrus and vegetables & spices are abundantly available. Food Processing & Floriculture have been identified as thrust sectors by the state government for special incentives. Potential Projects in this sector are (i) 100% EOU Chicken Processing Project (ii) Freeze-dried food products (iii) Integrated Floriculture Project (iv) Cold Chain (v) Food irradiation facility. The government is establishing a biotech park in Chennai. Abundant availability of highly skilled manpower in biotechnology & biochemistry from eminent institutions. Furthermore, the state is very rich in herbs and a major exporter of herbal products to Europe, East Asia, and the United States.

Tamil Nadu has scope in pharmaceuticals as well. Orchid Pharmaceuticals is the third largest manufacturer of sterile cephlosporin, Dadha Pharma, Malladi, Citadel, and other companies have set up in Tamil Nadu. Tamil Nadu is the ideal location for (i) Contract manufacturing (ii) Global sourcing base(iii) Process engineering for Products going off patents (iv) Manufacture of Generic and other bulk drugs and special formulations.

FDI in Tamil Nadu is dominated by investments in the IT sector. Chennai and the Tamil Nadu region as a whole have been attractive host sites for FDI for the past

decade. Although Chennai must compete with Silicon City in Bangalore and Cyberabad in Hyderabad, Chennai has highly skilled IT workers who attract investors despite being a in the areas of software design, computerized services such as call centers, accounting etc. Tamil Nadu is now well positioned amongst the southern states of India to be a major site for IT-related investment in the coming decades. Other papers from the Center for International Development at Harvard University have highlighted the role of the state in promoting computer education, computer-based government services and assistance to the private sector (Bajpai, and Ramachandran and Goebel, 2001).

Chennai has emerged as a major hub of software development in the country and has the potential to become an IT corridor to South East Asia. The State has also a fair share of electronics manufacture and assembling. Chennai ranks *first* among Indian cities in terms of technology exposure & responsiveness by Business World survey, 1999. NASSCOM rates Chennai the ideal location for software projects in India . Tamil Nadu registered the fastest and highest growth rate in software exports- almost 800 percent in 1998-2001 - from Rs.4.00 billion to Rs.31.2 billion .

Chennai is a major producer of software professionals in India and has largest mainframe capacity in Asia. Companies such as Alcatel, TCS, Ramco, Pentafour, Cognizant, Singapore Airlines, EDS, Infosys, etc.and MNCs like Matsushita have set up their base in Chennai. Opportunities for Investment in Software Centres is facilitated with New Investor-friendly IT Policy. More than 760 Companies are operational with over 35,000 professionals employed. Built-up office space already occupied by software industry in Chennai is over 1.6 million sq.feet.

While estimates show that India produces the second largest number of IT professionals in the world, Tamil Nadu stays ahead of other states in producing the highest number of engineering undergraduates per year in the country (40,000 students are registered as engineering undergraduates, of which, 20,000 are enrolled in IT -related disciplines). With the software industry booming, the software and services sector in India is expected to attract foreign direct investment (FDI) of $4-5 billion by 2008. Tamil Nadu was one of the first states in the country to announce a distinct IT Policy (as early as November 1997). In addition, the state government is helping software companies by giving them an uninterrupted power supply, land area at subsidized rates and exemption from pollution control regulations. It has also liberalized the floor space index (FSI) in prominent cities to 50 percent for IT parks, thereby promoting the growth of new enterprises in this area.

Of the Rs.24,350 crore Indian software market in 1999-2000, export revenues have touched Rs.17,150 crore, of which software exports from

Tamil Nadu have increased to Rs.1,890 crore as compared to Rs.1,246 crore during the previous year. Tamil Nadu exports are about 11-12 per cent of the overall market . If this is used as a proxy for the size of the IT industry, it is second only to Karnataka and about twice as large as Andhra Pradesh. Also, the number of software exporting companies in the state has surged to 596 units.

Certain areas of exports are particularly important to the state. Services such as medical transcription, call centers, and GIS mapping are crucial components of the IT industry. The Indian IT-enabled services market grew by 66 per cent (Rs.4,000 crore) during the year 2000-2001, according to a Nasscom survey. Coimbatore, according to available data, is emerging as the largest medical transcription facility in the country. The following table describes the cost structure for a new company in Chennai:

COST STRUCTURE IN TAMIL NADU

Some costs (manpower, rental space, utilities) of services for setting up a new company in Tamil Nadu are provided below by UNIDO/IBIS:

Office space:Rental charges	
(Monthly rent/sq.mt.)	US$
Chennai-**TIDEL Park**	11.03*
San Francisco (USA)	35.88**

* Includes amenities - air conditioning, UPS,satellite connectivity, food courts, recreation facilities, car park, banks, other utilities, etc.** Only bare office space
(source: Cushman & Wakefield,1999)

Manpower Cost (annual cost US$)	
Management level	3,360
Shop-floor supervisor	1,980
Skilled worker	1,560
Semi-skilled worker	1,260
Power Tariff (for high-tension industries)	
Max demand charges per KW per month	Rs.150/-
Energy charges	
Metropolitan area	Rs. 3.30 KW
Non-Metropolitan area	Rs. 3.20 KW

Both the state and the private sector are taking steps to ensure local and international connectivity. Hathway Cable & Data Services has launched operations in Mumbai and Chennai through its own cable network. The

government has taken progressive measures by laying optic fibre cable (OFC) across the state, for which, three companies have been identified to create high bandwidth namely, WorldTel Tamil Nadu Private Limited, Dishnet DSL and BPL Broadband.

Apart from work in local networking, the state government is also trying to improve connectivity to the rest of the world. A major undersea fiber-optic cable network is to be constructed in the next few years. The project, called SingTel, is a huge venture for the state government. When completed, the project will serve as a major gateway for software exports from southern India to the rest of the world. It will also make broadband access much better within the state. Other large connectivity projects are also underway. These will certainly play a key role in attracting FDI.

In general, Tamil Nadu has certain features that are central to attracting FDI, whether in IT or in other areas. These include adequate infrastructure, a steady supply of affordable skilled manpower, a reasonable cost-of-living, significant government and private investment in IT-related facilities including the development of several parks and office space. Some venture capital funding is also emerging as a resource for small firms and entrepreneurs. Also, a connectivity project, called T-Net, is also serving to facilitate greater flows. Upon completion, T-Net will generate even more traffic into Chennai, thereby linking cities within the state with international locations. Initially, places like Chennai, Coimbatore, Salem, and Tirupur will be linked; Trichy and Madurai will follow these initial link-ups. This and other connectivity projects are playing a key role in achieving improved Internet access within the state.

The state is also devoting significant resources to the creation of IT parks. The Rs.338 crore Tidel Park on the IT Highway(a 1000 acre stretch of land from Taramani to Kelambakkam), was recently inaugurated by Prime Minister Atal Behari Vajpayee. Jointly promoted by TIDCO and ELCOT, the 12-storeyed building has about seven software companies currently operating. Alread, 90 percent of its 1 million sq. ft of office space has been booked. Other parks could also become popular. Located near Tidel Park is the Sholinganallur IT Park spread over an area of 50 acres, which has been proposed by ELCOT for software activities. The government has also identified a potential area at Siruseri Village, which is half an hour drive from Chennai. Connected by road to the city, the proposed IT Park spans an area of about 1000 acres with facilities like uninterrupted power supply through a dedicated power supply sub-station.

Chennai and the rest of Tamil Nadu have taken steps to remain attractive to foreign investors. The state government has involved the private sector in providing training to students at school and college levels. The city has adequate infrastructure such as international and domestic airports with reasonably good service, an all-weather seaport and a new port being constructted

25 kilometers away from the city, a relatively reliable telecom network, an adequate power supply, a railway network, including the commuter-responsive MRTS facility. Tamil Nadu is a part of the global telecom network with cellular, paging & value-added services like the **GPSS** facility, the **CPS** value -added network facility, International digital Leased Lines, and a submarine cable link. It has 1,603 telephone exchanges with over 1.4 million lines with integrated communication facilities linking in to all parts of the world.

The state has two major all-weather ports at Chennai (Madras) and Tuticorin, as well as two intermediate and six minor ports all of which are currently capable of handling over 32 million metric tonnes of cargo annually. The ports in Tamil Nadu have the following features:

Port Facilities in Tamil Nadu

No.of major places	2-Chennai & Tuticorin, Both have container terminals
Total container traffic	Chennai : 3.1 million MT
	Tuticorin : 0.7 million MT
No.of Intermediate Ports	2 (Cuddalore & Nagapattinam)
No.of Minor Ports	7

- Speed-link freight (container) trains link Chennai Port with Delhi and other Northern cities.
- Chennai Port handles Panmax, Suezmax vessels.
- Chennai Port was the first to introduce the concept of single window clearance and has been functioning very effectively.
- Chennai Port offers reservation for allotment of berths which facilities fixed day sailing of vessels.
- Chennai Port is well connected to different Internal Container Depots. Regular dedicated container trains linking Chennai Port with different parts of the country.
- Turn around time of ships in Chennai Port is between 4-5 days.

For inland water transport, there are two canal systems - the Vederanyam canal and North Buckingham canal. Govt. of Tamilnadu invitees investments in inland waterways improvement & operating project. A new LNG handling terminal is proposed to be commissioned as part of Ennore Satellite Port to handle, storage and supply LNG.

The presence of an international airport at Chennai (Madras) which links the state of major capitals as well as to domestic airports at Salem, Trichy, Coimbatore and Madurai make several parts of the state easily accessible. Increased industrial activity has given rise to an increase in passenger traffic as well as freight movement which has been growing at over 18 per cent per year. Chennai airport is connected with 15 countries with more than 60 direct flights every week. Finally, the power situation in Tamil Nadu can be described by the following table:

The Power Sector in India & Tamil Nadu

	India	**Tamil Nadu**
Existing power generating capacity	85,744 MW	7114 MW
Existing supply (billion units)	366	30.5
Existing demand(billion units)	414	34
Energy deficit	11.5%	10.8%
Per capita power consumption (units)	363	430
Plant load factor (PLF)	64.4%	76.1%
Transmission & Distribution loss	21.1%	16.9%
Additional capacity proposed		12,650 MW

Investments such as those described above have made Tamil Nadu an attractive site for FDI. Companies such as Ford, Hyundai and Alcatel have major investments in the stae. Sectors such as telecom, drugs and pharmaceuticals, amd power have been identified as sectors with great opportunities for US investors in India.

Mr. Murasoli Maran summed up the situation in Tamil Nadu at a recent seminar. "Every State now is in the running race. I would define the race as the race to get the future first and secure the prize of coveted industrial projects and FDI, and every State can now seek FDI. Therefore, every State is vying with each other to formulate attractive investor-friendly policies. With the incentives offered by the States being more or less similar, it is the strategic edge in human resource, speed, transparency, proactive bureaucracy, quality of the work-force and most importantly, the availability of infrastructures, especially quality and quantity of power, that make the difference and tilt the balance in favour of a particular State", Mr. Maran said.

Stating that in less than five years, Tamil Nadu had gone from zero production of cars to being the production base of three top ranking international automobile producers and also becoming one of the leading contenders in the field of information technology and software development, the Minister listed certain goals which Tamil Nadu could set for itself. These include doubling the per capita income of the state by the year 2006; universalisation of education to a Class 5 level with a special emphasis on girls and disadvantaged groups; becoming a regional gateway to Asia in the field of information technology; and to be counted among the top ranking manufactured goods exporters in India with export earnings exceeding US $ 10 billion per annum by 2006.

4. A Comparison of Tamil Nadu with Other Host Sites for FDI

As described above, Tamil Nadu is one of the most industrialized states in India and stands as a strong competitor to other host sites for FDI. Currently, it has a Net State Domestic Product of about $30 billion, with a third of its product is exported. A favorable investment climate created by the state government, accompanied by a strong infrastructure and resource base, holds much promise for the state's economic future. State priorities include the following:

The state government has put in place a number of financial incentives, including capital subsidies, power tariff concessions and sales tax waiver/deferral schemes. These potentially make Tamil Nadu very attractive for investment. Sales tax concessions consist of tax holidays, deferrals, or waivers available for five to fourteen years, again depending on the particulars of the project. The Industrial Township Area Authority Act of 1997 and The Acquisition of Land for Industrial Purposes Act have done much to expedite the establishment of special Industrial zones, within which investor-friendly incentives apply. Four major state agencies are actively involved in soliciting and facilitating FDI in the state:

Electronics Corporation of TamilNadu Ltd is focused on electronic industries. **ELCOT** has played a catalytic role in the establishment of several hi-tech and communication industries in the state, not only through financial assistance in the form of equity participation, but also through project conceptualization and implementation. It is the nodal agency for the UNIDO/IBIS programme in Tamil Nadu which serves to facilitate FDI.

The State Industrial Promotion Council of TamilNadu Ltd. was established with the intention of providing long term loans to medium scale industries and developing industrial parks . **SIPCOT** has developed over 6400 acres of industrial land in different parts of the state to cater to the growing demands of investors, with another 2150 acres under development. Plans have been drawn up for developing 20,000 acres in new sites.The agency also draws up plans and implements schemes to improve the infrastructure requirements of industrial areas to ensure higher levels of competitiveness.

TamilNadu Industrial Guidance and Export Promotion Bureau also known as **GUIDANCE** was established in 1992 as part of the post liberalization industrial policy of the Government with the primary objective of serving as the first point of contact for investors proposing investment in the state. The Bureau has developed a valuable information database and renders advisory assistance on policy and fiscal matters to entrepreneurs proposing investment in the state. The Bureau also provides assistance for exporters by providing valuable global market information. The Bureau is also the nodal agency for foreign investment in the State .

Electronics Test & Development Centre (ETDC) Chennai is an independent test laboratory under the Department of Electronics, Government of India. This laboratory is accredited to National Accreditation Board for Testing & Calibration Laboratories (NABL), under the Government of India, Department of Science & Technology, in the areas of electronics testing and electro-technical calibration, on the basis of its compliance to NABL criteria, which are in turn based on ISO/IEC Guide 25 and EN 45001. It offers a wide range of services, such as testing, calibration, education and training, consultancy for quality improvement and certification under ISO 9000 standards. The user friendliness of the software will be checked. This may include checking the result of incorrect operations by the user. The effectiveness of the on-line help will also be checked.

The ***Madras Export Processing Zone (MEPZ)*** and other export-oriented zones/parks within the state have been the cornerstone of the government's efforts to attract foreign and NRI (Non-resident Indian) investment. The zone was set up in 1984, and exports from it have grown from Rs.10 crores in 1985-86 to Rs. 994 crores in 1996-97 (a growth of about 58 percent over ten years). A large variety of products are exported including computer hardware, electronics, textiles, chemicals, and many consumer items. Major importers were the U.S. (53percent),

U.K. (17 percent), Netherlands (8 percent), and Germany (5 percent). Incentives within the MEPZ include income tax holidays for a block of up to five years within the first eight years, duty free import of capital goods and raw materials, exemption from central excise duty, stamp duty and registration fees, capital subsidies from the state government, and permission of foreign investment of up to 100 percent of equity.

It is worth comparing the advantages of Tamil Nadu with the attractiveness of host sites in China, Thailand, the Dominican Republic, Mexico, and Mauritius. China is perhaps the most significant competitor to Tamil Nadu and the rest of India; attention will be paid in particular to this region of the world.

China:

During the 1980s and 1990s China has implemented an ambitious export-oriented growth strategy, the central feature of which has been the establishment of Special Economic Zones (SEZs) and Open Coastal Cities. Between 1978 (when the Open Door policy was implemented) and 1993, it grew from the thirty-second largest trading nation in the world to the eleventh, and the most dramatic growth was in labor intensive manufactured goods where it has a distinct comparative advantage. This trade liberalization has been accompanied by spectacular growth in GDP and foreign trade. During 1980-90, GDP grew annually by 9.5 percent while exports grew at an annual rate of 11 percent -- more than twice as fast as world trade – and imports at 9.8 percent. In 1992 and 1993, annual GDP growth rates exceeded 13 percent, and annual growth of imports and exports accelerated to 13 percent and 27 percent respectively.

The SEZ and Open Cities have grown rapidly from fairly small backward areas to thriving modern industrial cities. In 1990, the SEZs and Open Cities accounted for 52 percent of total realized investment and more than half of total exports. During 1985-90, industrial output in Guangdong and Fujian grew at annual rates of 16-17 percent, compared with 6 percent for the rest of the economy.

The first four SEZs, set up in 1980, were Shenzhen, Zhuhai, and Shantou in Guangdong Province, and Xiamen in Fujian Province. They were chosen specifically because of their proximity to the major regional world trading centers of Hong Kong, Macao, and Taiwan. The understanding was that this proximity would make it easier to attract foreign direct investment and would make it attractive for firms to shift parts of their production processes (particularly the labor or land intensive ones since both are more scarce and expensive abroad) to China. Also, it was to be a geographically isolated (and therefore controlled) experiment with market oriented policies.

The scope of the SEZs in China has expanded considerably since their inception. Except for Shenzhen, their territories have been increased. Additional provinces have been opened to foreign direct investment and the demarcation between so-

called open areas and the rest of China have become less sharp. In 1984 fourteen coastal towns were opened up to form Open Coastal Zones and in 1988 the island of Hainan received full provincial status and was officially declared the fifth SEZ. Also it was decided to open up the entire coastal region from Liaoning province in the north to Guangxi province in the south. In 1990 the most ambitious of the economic development zones, Pudong New Area (in Shanghai) was opened. In early 1992, preferential policies were also extended to cities in inland provinces, especially those along the Yangtze river.

The Open Door Policy in China has five major goals:

- Import of foreign capital via FDI
- Import of advanced technology
- Import of western management know-how
- Export promotion and import substitution
- Employment generation and improvement of skills for the labor force

Most developing countries, including China, have tried to reverse their inward-looking policies of the 1960s and 1970s in response to the economic upheavals and debt crises which were triggered by the oil shocks of the 1970s and early 1980s. Most have tried to exploit the comparative advantage afforded by their relatively cheap labor forces. More recently, there has also been an emphasis on moving beyond light labor-intensive industries to high value-added ones – mainly through the import of newer technologies and worker training.

Policies required to promote FDI and exports have included the following:

- Exchange rate management
- Inflation management and undertaking of market-based price reforms
- Reduction of tariffs and quotas
- Creation of favorable credit and tax incentives
- Building necessary infrastructure
- Strengthening certain bureaucratic systems e.g. customs
- Education and training of the workforce and undertaking labor reforms
- Decentralization of economic decision making

Enterprises in the SEZs in China are offered preferential treatment in terms of taxation, import licensing, and tariffs. The most important difference between the SEZs and the rest of China is that investment decisions are made autonomously, not subject to Central planning. Local authorities can implement policies to attract investment and to develop local infrastructure as long as they can raise the funds to do so. This has created a climate that is very conducive to foreign investment. Enterprises in the zones are both state-owned and non-state owned. Non-state owned enterprises can be fully foreign-funded and owned, equity joint ventures, or contractual joint ventures. Additionally, SEZs enjoy considerable autonomy in investment, pricing, housing, and labor and land management policies..[13]

The Pudong New Area was established with the goal that Shanghai would become a major economic, trade, and financial center for China and the rest of Asia. It has preferential policies that are much broader in scope than the other SEZs. These include the following:

- Foreign-owned enterprises can trade their foreign exchange freely
- Foreign insurance companies can be established
- Foreign enterprises can build and operate port facilities
- Approved enterprises can engage in foreign trade without restrictions within a certain subzone.
- Foreigners can trade on newly established securities markets

The key aspects of the export promotion strategy in Thailand were:

- Duty drawbacks (tariff reductions or exemptions on certain intermediate goods)
- Duty compensation (reimbursements for raw materials used to produce exports)
- Exemption of import and export duty on goods flowing through bonded warehouses
- Tax privileges offered by the IEAT and BOI.
- Establishment of bonded warehouses
- Establishment of Export Processing Zones

China serves as a powerful reminder of the use of economic policies to attract FDI. A detailed description of the Chinese experience is given below.

Output

There has been a rapid growth in output (particularly in labor-intensive manufactured goods), exports, employment, and foreign direct investment. Real output growth in China has been sustained at close to double digit annual rates for over fifteen years – a simply outstanding economic performance. And although the precise figures are debatable due to pricing and data issues, the extent and speed of the rise in material living standards in China are plainly visible.
These benefits are, however, not evenly distributed among the provinces or among firms with different forms of ownership. Guangdong shows the most impressive growth, and this is due to both its close proximity to Hong Kong, Macao, and Taiwan, as well as the low proportion of state owned enterprises within the SEZ. State owned enterprises lag in total factor productivity gains and even show evidence of declining productivity, while collective and joint venture firms have raised productivity considerably. Fewer state enterprises also means less central control; this is key to creating a suitable climate for foreign direct investment. In general China has shown impressive changes in the lessening of state controls in the SEZs, but setbacks have occurred from time-to-time.

Economic growth has been faster in coastal areas than in inland provinces but it is difficult to find any city in China untouched by the economic development of the 1980s. FDI was a far more important catalyst in Guangdong than anywhere else;

Guangdong province received over half the FDI entering China during the 1980s, most of which was concentrated in the Pearl River Delta adjacent to Hong Kong and Macau. The non-state sector was an especially important source of capital accumulation in Jiangsu and Zhejiang. By the 1990s, although FDI remained heavily concentrated in the coastal areas, it became less so in Guangdong as growth spread to other areas. Still, annual growth in Zhejiang, Guangdong, Fujian, Jiangsu, and Shandong provinces exceeded 15 percent during the first half of the 1990s.

State enterprises have historically comprised a large share of the economy and have employed a large proportion of the rural and urban labor force. Moreover, the Chinese system of allocating housing, social benefits (health, education, entitlements like ration coupons) through the work unit meant that the social consequences of closing state enterprises were more drastic than just increasing the number of unemployed. Tentative attempts to introduce greater enterprise autonomy in the early and mid 1980s had little impact on the behavior of these enterprises. A more serious attempt at reform was the adoption of a contract responsibility system after 1988, under which taxes were separated from profits. Despite the ostensible similarity to the agricultural reforms of a decade earlier, the contract responsibility system did not induce more entrepreneurial behavior by these firms. In part the lack of response was due to its blunted incentives; if the enterprise became more profitable, the government re-contracted its tax demands. More importantly, the ownership structure provided little incentive to earn profits. Unlike agriculture, where output above the contracted amount went straight to the farming family, residual profits were claimed by several parties.

Price Liberalization

Price liberalization has been substantial in China since the late 1970s, but it has been constrained by a desire to protect state-run enterprises. Agricultural prices to producers were initially raised in order to encourage greater output in that sector; subsequently, prices to consumers were gradually increased to reduce subsidies. The prices of most manufactured consumer goods were freed during the second half of the 1980s. For producer goods, however, a dual-pricing system still exists as a means of preserving a role for planned allocations and softening the disruption of immediate price liberalization. The use of a dual-pricing mechanism to ease the reform of state enterprises requires incomplete liberalization of international trade and thereby forgoes a number of potential gains offered by trade liberalization.

Reform of State-owned Enterprises

Financial reform of state enterprises – During the 1980s some state enterprises had begun to issue shares, mainly to their employees, and authorities had begun to encourage the creation of conglomerates. During the early 1990s, the dominant approach to state enterprise reform was the creation of joint stock companies, whose shares could be traded on the two stock. Exchanges were also opened in

Shanghai and Shenzhen. Despite the publicity associated with the embrace of a fundamentalist capitalist institution, issuing shares has not made state-owned enterprises more entrepreneurial. The main objective of issuing shares has been to attract domestic and foreign capital for restructuring technologically outdated enterprises. It has not been embraced as a means of transferring control to shareholders who might then hold management responsible for unprofitable performance. On the contrary, the state has retained majority ownership of all of the listed companies on the Shanghai stock exchange.

Capital

There have been massive injections of capital, and all industrial sectors have become more capital intensive. This has not always been optimal since the use of capital intensive techniques might work against the goal of expanding employment. More needs to be done to attract appropriate types of capital from the West since much of it still flows in from Hong Kong, Macao, and Taiwan. Opening up to foreign direct investment has been a sensitive issue with China due its experiences with colonialist powers during the Opium Wars. Prior to the implementation of these policies, there had been some joint ventures with the former Soviet Union but that has dwindled. An important source of new capital for the past few years has been the community of overseas Chinese; the government has actively courted overseas remittances and investment from this group. As far back as 1952, overseas Chinese funds were used to run the Overseas Chinese Investment Enterprises (OCIEs). The government realized a long time ago that expatriate Chinese could be counted on as a huge reservoir of funds for what it regards as “genuine” foreign investment. China has also begun to use a limited amount of foreign commercial borrowing (from non-Chinese sources) to pursue its strategy of import substitution. After 1978 the new leadership adopted three methods of using foreign capital based on its 30 years of experience with international financial markets:

1. Attracting direct investment, including joint ventures, cooperative ventures, joint development, processing and assembly, etc.
2. Obtaining medium and long term loans from foreign governments and international finance organizations with low to average interest rates, as well as funds from various development agencies and relief funds.
3. Obtaining common commercial loans at market rates of interest. (least desirable)

The success of these basic forms of foreign direct investment strategies proved that foreign capital could be “actively” used without compromising China’s integrity, and the reforms were expanded to allow more joint ventures. Although the 1979 Joint Venture Law legalized foreign investment (FDI), actual FDI was small prior to 1984 and mainly concentrated in the Shenzhen special economic zone adjacent to Hong Kong. In 1984-85, as wages and land prices rose in Hong Kong and its dollar appreciated against every major currency except the U.S. dollar, entrepreneurs from Hong Kong led a foreign investment boom in China.

They shifted labor-intensive manufacturing operations across the border into southern China and were soon employing more workers in Guangdong province than in Hong Kong itself. Restrictions on the activities of foreign firms and their ability to repatriate profits were relaxed as the 1980s progressed and this made investment in China even more attractive to foreigners.

FDI incentives

Various policies favorable to foreign enterprises have been instituted. A 25 percent foreign investment gives an enterprise the status of a joint venture, qualifying it for tax incentives. At the same time, foreign equity can rise to 100 percent and there is no lower limit. Restrictions on choice of sector are minimal and thus joint ventures run the gamut from high technology to consumer goods, services and raw materials. In large Open Cities such as Shanghai, foreign investment projects up to $30 million can be approved, in smaller Open Cities the limit is $10 million. Employment, wage and pricing policies for joint ventures are flexible. Also joint ventures in SEZs and Open Cities enjoy other incentives such as:

- Exemption from state subsidies paid to employees
- Priority in obtaining Bank of China loans
- Tax exemption on profits remitted abroad
- Longer holidays from corporate income tax.[22]
- Extra tax benefits on profits reinvested in export-oriented or technologically advanced projects
- Reduced land-use fees and priority in obtaining utilities and access to transport and communication facilities
- Duty exemptions on imported goods used in exports (this applies to all firms, not just joint ventures). Under this scheme, the concessional share of imports was 35 percent in 1988 and rose to 50 percent in 1991. Total exports associated with concessional import arrangements account for 64 percent of China'' manufactured exports and doubled between 1988 and 1991.

Hong Kong

A key element in China's success has been the connection with Hong Kong. In the mid 1980s, attracted by lower land and labor costs, Hong Kong began to move manufacturing enterprises to China. This link brought much needed foreign capital, as well as new technology, modern management practices, and critical links to the rest of the world. Today, more than half of China's exports are handled through Hong Kong. Of the $45 billion in cumulative foreign investment commitments to China through 1992, 70 percent came from Hong Kong, and most of this investment went to export-oriented joint ventures. A large share of Guangdong's export production is supervised by firms in Hong Kong. Processing activity is also carried out largely in collaboration with Hong Kong partners who supply materials. Many items previously exported by Hong Kong, particularly in the toy and clothing sectors, are now exported by Guangdong. All of these effects can expect to be further intensified now that Hong Kong has

reverted to Chinese control.

It is not simply economic factors that drive the close relationship between Hong Kong and China. Their shared cultural ties also play a crucial role in developing business relationships. China has been more open to FDI from Hong Kong, feeling that it is not so much a "foreign" power. There is an understanding and trust that it has the longer term economic well-being of China in mind. Business innovations are received with less suspicion. The downside is that there are also more opportunities for situations of bribery and corruption.

Decentralization

Decentralization has been crucial in making the SEZs attractive to investment. Special policies that allow a greater portion of firms' profits to be retained instead of being transferred to the Center are notable. China's economic system is highly decentralized and policy implementation is now largely under the control of provincial authorities. Hence in fast growing provinces, provincial and local officials have been deeply involved in the development process in general and export promotion in particular. Besides their role in facilitating foreign investment, there are a number of ways in which local governments promote exports. The central government sets mandatory targets or export quotas for only a limited number of items or by volume. But in some provinces, like Jiangsu, the export quota system is far more elaborate. Moreover, taking advantage of their monopsony power, FTCs are able to buy goods at prices well below domestic prices, making their output competitive in the world market. Operating within central government guidelines, provincial governments have been expanding Direct Export Rights to enterprises, but the criteria for doing so are very stringent. As a result only 5 percent of China's exports are produced by enterprises with Direct Export Rights. Also within central government guidelines, local authorities decide the allocation of imported raw materials by sharing locally retained foreign exchange earnings among enterprises, collectives, and town and village. Provinces and cities also indirectly subsidize exports by providing critical inputs like electric power to export-oriented enterprises. Additional incentives are provided in the form of higher bonuses for managers and employees awarded on the basis of export performance. Finally, local authorities establish joint ventures between FTCs and enterprises to promote exports.

In 1993-94 a series of tax reforms were also instituted. The main features were the establishment of a unified enterprise tax and the extension of the value-added tax (VAT) to become a major indirect tax. Other components included revision of the personal income tax, rationalization of the budgetary system, and the abolition of the FECs. Before the reforms the enterprise taxation system was a convoluted mess. The state-owned enterprises faced a 55 percent profit tax, which was adjusted to fit each specific situation. As long as a dual-price system existed it was impossible to assert that profits reflected any economic criteria and tax

payments were in effect negotiated on a case-by-case basis. This encouraged many anomalies, such as the increase of wages and salaries in place of the realization of (taxable) profits or the imposition of local fees and taxes as a means to cream off surplus, which would otherwise have gone to the central government. Collective enterprises faced progressive taxes in eight brackets ranging from 10 percent to 55 percent, and private enterprises were taxed at 35 percent. Foreign-owned enterprises were taxed at 33 percent. However, this tax was reduced to 15 percent in special zones, and was often exempted by tax holidays aimed at encouraging joint ventures to invest there. The differential tax rates encouraged artificial changes of firm status and widespread tax evasion.
The 1994 reforms fixed corporate income tax at 33 percent for all enterprises. Existing tax contracts with state-owned enterprises have been annulled. The preferential tax rate of 15 percent for foreign invested venture sin special economic zones has been retained, but the power of local authorities to grant exemptions and privileges has been curbed.

In summation, there are some important lessons to be learned from the Chinese experience with attracting FDI. These include the following:

- The SEZs have allowed for the transfer of management know-how from abroad. This is important to China as it expands its experiment with market based economic policies and tries to compete in the global marketplace.
- There is enough evidence to show that the SEZs have resulted in true export creation, not just diversion. Restrictions on exports and imports have also been liberalized, compared with pre-1979 levels, but are still severe enough to have delayed China's entry into GATT.
- The domestic resource cost ratio, a measure of the financial benefit that an enterprise can generate from its exports, is significantly lower in the market oriented cities in China than elsewhere in the country. This shows also that these enterprises are operating as profit maximizers and are not being state-subsidized.
- Designation as an SEZ contributes significantly to developing infrastructure in the province in question. A case in point is Gaungdong which lagged behind Shanghai significantly in terms of infrastructure. Now it has become one of the foremost developed areas in this respect.
- China has three main institutions involved in export oriented growth. These are—the Ministry of Foreign Economic Relations and Trade (MOFERT) which makes major trade policy decisions, Foreign Trade Corporations (FTCs) which carry out most of the business functions in the area of trade, and the State Administration of Exchange Control (SAEC) which regulates the sources and uses of foreign exchange. MOFERT decides China's overall trade policies, formulates plans, issues licenses, initiates trade reforms, makes policies regarding import of technology and investment. It has several local branch offices in the major provinces. FTCs are the business arm of the MOFERT, and are organized along product lines to handle all China's exports and imports. SAEC was created in 1984 to regulate foreign exchange and has branch offices at province and municipal levels.

Perhaps the most important lesson to be learned from the Chinese experience – consistent with the experience of other East Asian countries – is that FDI and export-oriented manufacturing can play a very important role in achieving high GDP growth rates. Successful export expansion in turn depends on a policy package, which conveys a clear message that the country will give priority to export-oriented firms rather than sheltering import-competing industries.

Other countries may provide useful insights as well. A brief review of Thailand, Mexico, Mauritius and the Dominican Republic is given below.

Thailand:

Prior to the 1997 Asian financial crisis, Thailand was one of the most rapidly growing export economies in Asia with an annual growth rate if 8 percent-12 percent per annum. This success can be attributed to its sound macroeconomic policies, aggressive policies aimed at expanding exports and attracting foreign capital, and its cheap domestic labor supply. In the 1950's most enterprises in Thailand were state-run. In the 1960s and 1970s the shift was made to import substitution and the development of private enterprises. The Board of Investment (BOI) was created to promote domestic industrialization and supervise fiscal and non-fiscal privileges for foreign investment. A system of tariffs was set in place to protect manufacturers of consumer goods. But this policy came under severe criticism in the late 1970s, and instead a program of export promotion was put into place. Bonded warehouses and EPZs were established. Also, the BOI established an attractive set of incentives for investment, including tax exemptions on raw materials and machinery for firms that exported 80 percent-100 percent of their product.

But effective rates of protection on domestic consumer goods remained high and soared to 90 percent after the oil shock in the1970s. The start of the 1980s was a tough time for Thailand economically due to the aftermath of the second oil shock, and it underwent a period of severe economic restructuring. But currency devaluation in 1984, followed by a managed float in 1987, led to a period of strong export growth. Tariff rates were lowered in 1982, investment incentives were expanded and the importance of EPZs was dramatically increased. The availability of cheap domestic labor, especially in comparison to more developed Asian nations like Taiwan and Japan, was also very favorable to encouraging relocation of FDI to Thailand.

The Dominican Republic:

The Dominican Republic has experienced very impressive growth rates in recent years, primarily driven by its free zone sector (which grew 7.4 percent in 1998 and 10.6 percent in 1997). This is particularly remarkable given it's history of civil war in the mid-60s and the almost total dependence then on sugar as a cash crop. It recent years, in spite of import substitution policies, there has been a big

drive to expand exports and foreign investment through an ambitious export processing zone program. The first free trade zone in the Dominican Republic was established in 1969 in La Romana, built and managed by the U.S. multinational Gulf and Western Corporation. The second free trade zone was built in San Pedro in 1972, and the third in Santiago in 1973. But during the 1970s, due to the oil shock and a decline in terms of trade for sugar, the island mainly followed policies of import substitution. In 1981 and 1982 further problems arose due to the sharp reduction in U.S. imported sugar quota and the second oil shock. The country was faced with a severe economic crisis including a complete depletion of foreign exchange reserves. Combined with an overvalued peso and a high minimum wage, this resulted in only about 100 companies located in the free trade zone by 1983.

In 1983, the IMF imposed an austere restructuring program that included a currency devaluation. By 1985 there was a surge in economic growth, led by FDI in the free trade zones and by growth in the tourism industry. There was a dramatic increase in the number of firms established and workers employed. The Caribbean Basin Initiative (CBI) in 1983 also gave a push to Dominican exports, and they increased by an average of almost 10 percent annually between 1983-1988 despite the U.S. sugar quota policy. Free trade zone exports alone grew by almost 187 percent during this period, from almost 19 percent to almost 37 percent of exports.

The growth of free trade zones has continued and they now account for well over 80 percent of the island's total exports (and about 3 percent of GDP). Despite the fact that it was a relatively late entrant in the game, the Dominican Republic is now the world's fourth largest export processing economy in terms of both employment and number of firms.

During the 1980s, the government continued its policies of import substitution in the rest of the economy, including tariff and non-tariff barriers and multiple exchange rates. However, in June 1988, a major stabilization and restructuring program, including a large currency devaluation, was implemented. A major tariff reform was put in place, which simplified the tariff structure and reduced the maximum rate to 35 percent, and abolished all quotas. The Free Trade Zone Law was passed to unify all free trade zone legislation and multiple exchange rates were removed in 1991. By 1995, the economy had recovered and the Dominican Republic became a member of the World Trade Organization. Free trade zone growth continued in spite of an appreciating DR peso, the implementation of NAFTA and a depreciating Mexican peso. In the early 1980s, U.S. firms comprised 80 percent of the free trade zone enterprises. Currently, slightly over 50 percent of the firms are U.S.-owned, but there has been increasing domestic participation. Domestic investment increased to 20 percent in 1998, with almost 30 percent of the firms being domestically owned.

The free trade zones are dominated by the garment industry, followed by the tobacco industry (which is a distant second). Textile and apparel firms make up

60 percent of firms and almost 70 percent of total employment. The operations tend to be labor intensive, light industry type of firms. Often they operate as subcontractors for large firms elsewhere. The workers tend to be unskilled or low skilled, with a majority of them being female. Most free trade zones are located in the northern part of the island, next to the second largest city, Santiago. This ensures proximity to a large labor pool and the availability of good infrastructure.

The Free Trade Zones in the Dominican Republic are attractive for many reasons:

- Location – Proximity to final markets and sources of intermediate goods in the U.S.
- Transportation – Shipping is the most common means of transporting goods to the U.S. and there are numerous container ships that ply the route between Florida and Dominican Republic.
- Policy Environment – The DR has a very favorable environment for foreign investment. The Free Trade Zones provide firms with a 100 percent exemption of all taxes, duties, and fees affecting production and export activities for a period of fifteen years, with a possibility of extension. Firms that locate in FTZs have fewer problems with customs, which is significant in a situation that if often full of red tape and corruption. FTZ companies are also not subject to foreign currency restrictions, except that they must pay for their local operating costs in Dominican pesos purchased from the Central Bank.
- Utilities and Infrastructure – The record here is mixed. The Dominican Republic has an excellent telecommunications system, but the electricity supply is poor. There is a well-developed system of airports and roads.
- Labor – There is an abundant supply of the necessary labor for the FTZ firms. There is a minimum wage law in the FTZs, but it is still much below that in the U.S.

The United States plays an unusually important role in the economy of the Dominican Republic, both as a source of investment and as a market for exports. Consequently, U.S. trade policy has a large impact on free trade zone activity. The CBI offers duty free access to the U.S. market for a wide variety of goods, but excludes textiles and apparel and most leather goods. Although the Dominican Republic is the chief beneficiary of the CBI (it accounts for 37 percent of CBI exports to the U.S.), the exclusion of the textile industry greatly lessens its importance. But under another regime, the Harmonized Tariff Schedule, a duty of 19 percent on the re-imports of U.S. companies applies only to the portion of value added produced abroad. This creates an opportunity for the Dominican apparel industry and over 80 percent of the region's apparel enters the U.S. under this program. In addition, many Asian firms had partially shifted operation to the Dominican Republic to circumvent quotas imposed by the Multi-Fiber Agreement. Some movement to other locations is being generated as firms are no longer under this agreement. But the Dominican Republic still remains a very popular location for FDI.

Mexico:

Prior to 1982, Mexico followed an inward looking policy, very much biased towards import substitution. This was made possible due to the discovery of huge oil reserves during a time of sharp increases in oil prices. But after the economic shock and devaluation of 1982, it has significantly liberalized its trade environment, leading to the 1989 implementation of NAFTA.

The *maquiladora* sector in Mexico is the lynchpin of its export expansion program. Two thirds of the *maquilas* are located in a state that borders the United States (Chihuahua has 485, Baja California Norte has 718, and Sonora has 185), but recently there has been a spurt in growth of interior *maquilas* too. By March of 1998 there were 2288 *maquilas* in Mexico. Of which 781 (34 percent) were in the interior. In 1995, 43 percent of the *maquilas* were owned by Mexican companies, 38 percent by U.S. companies, 14 percent were U.S.-Mexican joint ventures, and 2 percent were Japanese owned. In the border region, however, about 70 percent of the firms are U.S. owned and 18 percent are Mexican owned.

Mexico's chief advantage in export growth is the long border it shares with the United States, and for almost all the *maquila* firms the U.S. is the largest market. The contiguity with the United States makes it feasible to use more flexible and cheap forms of transportation like trucking. It also makes it easy for U.S. firms to set up subsidiaries which they can easily visit and supervise. Mexico has a considerably lower wage level and herein lies is prime comparative advantage. The labor tends to be of a low skill variety, however.

The *maquila* program is a bonded warehouse program, not a system of export processing zones. Most *maquilas* tend to locate in industrial parks which offer various advantages like better infrastructure, and better transportation to bring in workers. Various regulations have to be complied with, but they are not especially onerous. Mexico has experienced one major problem—the lack of backward linkages. It was hoped that significant backward linkages would arise from the *maquila* sector. Unfortunately, the local content of domestic intermediate goods has never reached more than 2 percent of total costs. This is in marked contrast to Asian exporters.

Mauritius:

Like many developing countries, Mauritius followed a policy of import substitution in the 1960s. But faced with a severe balance of payments and unemployment problem, Mauritius passed the Export Processing Zones Act in 1970, which established the legal framework for export-led growth. The Act was designed to attract foreign investment through a system of tax concessions and other incentives like duty free import of intermediate goods, credit incentives, repatriation of capital, and dividends (a rarity among developing nations), easing of bureaucratic restrictions, and reduced rates for utilities. At first tariffs and

quotas remained in place, but in a move towards further liberalization these were dismantled in 1985.

Export processing zones in Mauritius have benefited from several factors:

- Stable and democratic political environment – crucial for attracting foreign investors, who may be wary of losing their investment or facing inconsistent policies.
- Well-developed infrastructure, including transportation, energy supplies, and communications.
- Low labor costs
- Sound macroeconomic policies – The exchange rate and interest rate policies have made production for export competitive and profitable. The devaluation of the domestic currency in the 1970s made Mauritian exports very competitive on the world market.
- Sound fiscal policy – The devaluation led to domestic inflation, but through sensible fiscal policies and a brief period of exchange controls the situation was brought under control by 1984.

APPENDIX: POLICIES RE: FDI in TAMIL NADU

Sector Specific Guidelines For Foreign Direct Investment

Sl.No.	Sector	Guidelines
1.	Banking Non Banking Financial Companies (NBFC) Insurance	FDI up to 49% from all sources is permitted in the banking sector on the automatic route subject to conformity with guidelines issued by RBI from time to time. a. FDI/NRI/OCB investments allowed in the following 18 NBFC activities shall be as per levels indicated below: i. Merchant banking ii. Underwriting iii. Portfolio Management Services iv. Investment Advisory Services v. Financial Consultancy vi. Stock Broking vii. Asset Management viii. Venture Capital ix. Custodial Services x. Factoring xi. Credit Reference Agencies xii. Credit rating Agencies xiii. Leasing & Finance xiv. Housing Finance xv. Forex Broking xvi. Credit card business xvii. .Money changing Busine xviii. .Micro Credit xix. Rural Credit b. Minimum Capitalisation Norms for fund based NBFCs: For FDI UPTO 51% - US$ 0.5 million to be brought upfront For FDI above 51% and upto 75% - US $ 5 million to be brought upfront For FDI above 75% and upto 100% - US $ 50 million out of which US $ 7.5 million to be brought upfront and the

		balance in 24 months 100% NBFC Holding Company with a minimum capital of US $ 50 million allowed to set up a 100% downstream subsidiary to undertake specific NBFC activities. Such a subsidiary, however, could be required to dis-invest its equity to the minimum extent of 25%, through a public offering only, within a period of three years. c. Minimum capitalisation norms for non-fund based activities: Minimum capitalisation norm of US $ 0.5 million is applicable in respect of all permitted non-fund based NBFCs with foreign investment. Permitting FDI upto 26% in the Insurance sector under automatic route subject to obtaining licence from Insurance Regulatory and Development Authority (IRDA)
2.	Civil Aviation (detailed guidelines have been issued by Ministry of Civil Aviation)	In the domestic Airlines sector: i. FDI upto 40% permitted subject to no direct or indirect equity participation by foreign airlines is allowed. ii. 100% investment by NRIs/OCBs. iii. The automatic route is not available. FDI up to 100% is permitted in airports, with FDI above 74% requiring prior approval of the Government.
3.	Telecommunication	FDI up to 74% is permitted for the following telecom services subject to licensing and security requirements: a. Internet service providers with gateways; b. Radio paging; and c. End-to-end bandwidth Proposals with FDI beyond 49% shall require prior Government approval. i. In basic, Cellular Mobile, Value Added service and Global Mobile Personal Communications by Satellite, FDI is

		limited to 49% subject to grant of licence from Department of Telecommunications and adherence by the companies (who are investing and the companies in which investment is being made) to the licence conditions for foreign equity cap and lock in period for transfer and addition of equity and other licence provisions. ii. No equity cap is applicable to manufacturing activities. iii. FDI upto 100% is allowed for the following activities in the telecom sector : a. ISPs not providing gateways (both for satellite and submarine cables); b. Infrastructure Providers providing dark fibre (IP Category 1); c. Electronic Mail; and d. Voice Mail The above would be subject to the following conditions: e. FDI upto 100% is allowed subject to the condition that such companies would divest 26% of their equity in favour of Indian public in 5 years, if these companies are listed in other parts of the world. f. The above services would be subject to licensing and security requirements, wherever required. g. Proposals for FDI beyond 49% shall be considered by FIPB on case to case basis.
4.	Petroleum (other than Refining) Petroleum (Refining)	a. Under the exploration policy, FDI utpo 100% is allowed for small fields through competitive bidding; upto 60% for unincorporated JV; and upto 51% for incorporated JV with a No Objection Certificate for medium size fields. b. For petroleum products and pipeline sector, FDI is permitted upto 51%. c. FDI is permitted upto 74% in infrastructure related to marketing and marketing of petroleum products.

		d. 100% wholly owned subsidiary(WOS) is permitted for the purpose of market study and formulation. e. 100% wholly owned subsidiary is permitted for investment/Financing. f. For actual trading and marketing, minimum 26% Indian equity is required over 5 years. The automatic route is not available. a. FDI is permitted upto 26% in case of public sector units(PSUs). PSUs will hold 26% and balance 48% by public.Automatic route is not available. b. In case of private Indian companies, FDI is permitted upto 100% under automatic route.
5.	Housing & Real Estate	No foreign investment is permitted in this sector. NRIs/OCBs are allowed to invest. The scheme specific to NRIs and OCBs covers the following: a. Development of serviced plots and construction of built up residential premises b. Investment in real state covering construction of residential and commercial premises including business centres and offices c. Development of townships d. City and regional level urban infrastructure facilities, including both roads and bridges e. Investment in manufacture of building materials f. Investment in participatory ventures in (a) to (e) above g. Investment in housing finance institutions
6.	Coal and Lignite	i. Private Indian companies setting up or operating power projects as well as coal or lignite mines for captive consumption are allowed FDI upto 100%. ii. 100% FDI is allowed for setting up coal processing plants subject to the condition that the company shall not

		do coal mining and shall not sell washed coal or sized coal from its coal processing plants in the open market and shall supply the washed or sized coal to those parties who are supplying raw coal to coal processing plants for washing or sizing. iii. FDI upto 74% is allowed for exploration or mining of coal or lignite for captive consumption. iv. In all the above cases, FDI is allowed upto 50% under the automatic route subject to the condition that such investment shall not exceed 49% of the equity of a PSU.
7.	Venture Capital Fund(VCF) and Venture Capital Company(VCC)	An offshore venture capital company may contrinute upto 100% of the capital of a domestic venture capital fund and may also set up a domestic asset management company to manage the fund. VCFs and VCCs are permitted upto 40% of the paid up corpus of the domestic unlisted companies. This ceiling would be subject to relevant equity investment limit in force in relation to areas reserved for SSI. Investment in a single company by a VCF/VCC shall not exceed 5% of the paid-up corpus of a domestic VCF/VCC. The automatic route is not available. (a) Offshore Venture Capital Funds/Companies are allowed to invest in domestic venture capital undertakings as well as other companies through the automatic route, subject only to SEBI regulations and sector specific caps on FDI.
8.	Trading	Trading is permitted under automatic route with FDI upto 51% provided it is primarily export activities, and the undertaking is an export house/trading house/super trading house/star trading house. However, under the FIPB route:- i. 100% FDI is permitted in case

		of trading companies for the following activities: • exports; • bulk imports with export/ex-bonded warehouse sales; • cash and carry wholesale trading; • other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group and not for third party use or onward transfer/distribution/sales. ii. The following kinds of trading are also permitted, subject to provisions of EXIM Policy: a. Companies for providing after sales services (that is no trading per se) b. Domestic trading of products of JVs is permitted at the wholesale level for such trading companies who wish to market manufactured products on behalf of their joint ventures in which they have equity participation in India. c. Trading of hi-tech items/items requiring specialised after sales service d. Trading of items for social sector e. Trading of hi-tech, medical and diagnostic items. f. Trading of items sourced from the small scale sector under which, based on technology provided and laid down quality specifications, a company can market that item under its brand name. g. Domestic sourcing of products for exports. h. Test marketing of such items for which a company has approval for manufacture provided such test marketing facility will be for a period of two years, and investment in setting up manufacturing facilities commences simultaneously with test marketing. i. FDI upto 100% permitted for

		e-commerce activities subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in five years, if these companies are listed in other parts of the world. Such companies would engage only in business to business (B2B) e-commerce and not in retaiol trading.
9.	Investing companies in infrastructure/ service sector	In respect of the companies in infrastructure/service sector, where there is a prescribed cap for foreign investment, only the direct investment will be considered for the prescribed cap and foreign investment in an investing company will not be set off against this cap provided the foreign direct investment in such investing company does not exceed 49% and the management of the investing company is with the Indian owners. The automatic route is not available.
10.	Atomic energy	The following three activities are permitted to receive FDI/NRI/OCB investments through FIPB (as per detailed guidelines issued by Department of Atomic Energy vide Resolution No.8/1(1)/97-PSU/1422 dated 6.10.98): a. Mining and mineral separation b. Value addition per se to the products of (a) above c. Integrated activities (comprising of both (a) and (b) above. The following FDI participation is permitted: a. Upto 74% in both pure value addition and integrated projects. ii. For pure value addition projects as well as integrated projects with value addition upto any intermediate stage, FDI is permitted upto 74% through joint venture companies with Central/State PSUs in which equity holding of at least one PSU is not less than 26%. iii. In exceptional cases, FDI beyond 74%

		will be permitted subject to clearance of the Atomic Energy Commission before FIPB approval.
11.	Defence and strategic industries	The defence industry sector is opened up to 100% for Indian private sector participation with FDI permissible up to 26%, both subject to licensing.
12.	Agriculture (including plantation)	No FDI/NRI/OCB investment is permitted.
13.	Print media	No FDI/NRI/OCB investment is permitted
14.	Broadcasting	No FDI/NRI/OCB investment is permitted
15.	Power	Upto 100% FDI allowed
16.	Drugs & Pharmaceuticals	FDI up to 100% is permitted on the automatic route for manufacture of drugs and pharmaceutical, provided the activity does not attract compulsory licensing or involve use of recombinant DNA technology, and specific cell / tissue targeted formulations. FDI proposals for the manufacture of licensable drugs and pharmaceuticals and bulk drugs produced by recombinant DNA technology, and specific cell / tissue targeted formulations will require prior Government approval.
17.	Roads & Highways, Ports and Harbours.	FDI upto 100% under automatic route is permitted in projects for construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours. FDI up to 100% is permitted on the automatic route for Mass Rapid Transport Systems in all metropolitan cities, including associated commercial development of real estate.
18.	Hotels & Tourism	FDI up to 100% is permitted on the automatic route in hotel and tourism sector. The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation

		and/or catering and food facilities to tourists. Tourism related industry includes travel agencies, tour operating agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organisations. Automatic route is available upto 51% subject to the following parameters. For foreign technology agreements, automatic approval is granted if i. upto 3% of the capital cost of the project is proposed to be paid for technical and consultancy services including fees for architects, design, supervision, etc. ii. upto 3% of net turnover is payable for franchising and marketing/publicity support fee, and iii. upto 10% of gross operating profit is payable for management fee, including incentive fee.
19.	Mining.	i. For exploration and mining of diamonds and precious stones FDI is allowed upto 74% under automatic route. ii. For exploration and mining of gold and silver and minerals other than diamonds and precious stones, metallurgy and processing FDI is allowed upto 100% under automatic route. iii. Press Note No. 18 (1998 series) dated 14.12.98 would not be applicable for setting up 100% owned subsidiaries in so far as the mining sector is concerned, subject to a declaration from the applicant that he has no existing joint venture for the same area and / or the particular mineral.
20.	Postal services	Couriers carrying packages, parcels

		and other items which do not come within the ambit of Indian Post Office Act 1998 shall not be permitted.
21.	Pollution Control and management	FDI upto 100% in both manufacture of pollution control equipment and consultancy for integration of pollution control systems is permitted under automatic route.
22.	Advertising and films	Automatic approval is available for the following: • Upto 74% FDI in advertising sector • Upto 100% FDI in film industry (i.e. film financing, production, distribution, exhibition, marketing and associated activities relating to film industry) subject to the following: i. Companies with an established track record in films, TV, music, finance and insurance would be permitted. ii. The company should have a minimum paid up capital of US $ 10 million if it is the single largest equity shareholder and at least US $ 5 million in other cases. iii. Minimum level of foreign equity investment would be US $ 2.5 million for the single largest equity shareholder and US $ 1 million in other cases. iv. Debt equity ratio of not more than 1:1, i.e., domestic borrowings shall not exceed equity.
23	Townships	FDI up to 100% is permitted for development of integrated townships, including housing, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities such as roads and bridges, mass rapid transit systems; and manufacture of building materials. Development of land and providing allied infrastructure will form an integral part of township's development, for which necessary guidelines/norms relating to minimum capitalisation, minimum land area, etc., will be notified separately by the Government. FDI in this sector would

		be permissible with prior Government approval.
24	Courier services	FDI up to 100% is permitted in courier services subject to existing laws and exclusion of activity relating to distribution of letters. FDI in this sector would be permissible with prior Government approval.

1. INDUSTRIAL POLICY

The Government's liberalisation and economic reforms programme aims at rapid and substantial economic growth, and integration with the global economy in a harmonised manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion ,and facilitated easy access to foreign technology and foreign direct investment.

Industrial Licensing

1.1 All industrial undertakings are exempt from obtaining an industrial licence to manufacture, except for (i) industries reserved for the Public Sector (Annex I), (ii) industries retained under compulsory licensing(Annex II), (iii) items of manufacture reserved for the small scale sector and (iv) if the proposal attracts locational restriction.[For procedure to obtain Industrial Licence refer to para 7.2].

IEM

1.2 Industrial undertakings exempt from obtaining an industrial license are required to file an Industrial Entrepreneur Memoranda(IEM) in Part 'A' (as per prescribed format) with the Secretariat of Industrial Assistance(SIA), Department of Industrial Policy and Promotion, Government of India, and obtain an acknowledgement. No further approval is required. Immediately after commencement of commercial production, Part B of the IEM has to be filled in the prescribed format. The facility for amendment of existing IEMs has also been introduced. [For procedure to file IEM refer to para 7.1].

Locational Policy

1.3 Industrial undertakings are free to select the location of a project. In the case of cities with population of more than a million (as per the 1991 census), however, the proposed location should be at least 25 KM away from the Standard Urban Area limits of that city unless, it is to be located in an area designated as an "industrial area" before the 25th July, 1991.(List of cities with population of 1 million and above is given at Annexure-V). Electronics, Computer software and Printing (and any other industry which may be notified in future as "non polluting industry") are exempt from such locational restriction. Relaxation in the aforesaid locational restriction is possible if an industrial license is obtained as per the notified procedure.

1.4 The location of industrial units is further regulated by the local zoning and land use regulations as also the environmental regulations. Hence, even if the requirement of the locational policy stated in paragraph 1.3 is fulfilled, if the local zoning and land use regulations of a State Government, or the regulations of the

Ministry of Environment do not permit setting up of an industry at a location, the entrepreneur would be required to abide by that decision.

Policy Relating to Small Scale Undertakings

1.5 An industrial undertaking is defined as a small scale unit if the investment in fixed assets in plant and machinery does not exceed Rs 10 million. The Small Scale units can get registered with the Directorate of Industries/District Industries Centre in the State Government concerned. Such units can manufacture any item including those notified as exclusively reserved for manufacture in the small scale sector. Small scale units are also free from locational restrictions cited in paragraph 1.3 above. However, a small scale unit is not permitted more than 24 per cent equity in its paid up capital from any industrial undertaking either foreign or domestic.

1.6 Manufacture of items reserved for the small scale sector can also be taken up by non- small scale units, if they apply for and obtain an industrial license. In such cases, it is mandatory for the non-small scale unit to undertake an export obligation of 50 per cent . In addition, if the equity holding from another company(including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 10 million, the unit loses its small scale status. An IEM is required to be filed in such a case for de-licensed industries, and an industrial license is to be obtained in the case of items of manufacture covered under compulsory licensing.

1.7 A small scale unit manufacturing small scale reserved item(s), on exceeding the small scale investment ceiling in plant and machinery by virtue of natural growth, needs to apply for and obtain a Carry-on-Business(COB) License. No export obligation is fixed on the capacity for which the COB license is granted. However, if the unit expands its capacity for the small scale reserved item(s) further, it needs to apply for and obtain a separate industrial license. (For procedure to obtain COB licence, refer to para 7.2(d)).

1.8 It is possible that a chemical or a by-product recoverable through pollution control measures is reserved for the small scale sector. With a view to adopting pollution control measures, Government have decided that an application needs to be made for grant of an Industrial Licence for such reserved items which would be considered for approval without necessarily imposing the mandatory export obligation.

Environmental Clearances

1.9 Entrepreneurs are required to obtain Statutory clearances relating to Pollution Control and Environment for setting up an industrial project. A Notification (SO 60(E) dated 27.1.94) issued under The Environment Protection Act 1986 has listed 29 projects in respect of which environmental clearance needs to be

obtained from the Ministry of Environment, Government of India. This list includes industries like petro-chemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilisers, dyes, paper etc. However if investment is less than Rs. 500 million, such clearance is not necessary, unless it is for pesticides, bulk drugs and pharmaceuticals, asbestos and asbestos products, integrated paint complexes, mining projects, tourism projects of certain parameters, tarred roads in Himalayan areas, distilleries, dyes, foundries and electroplating industries. Further, any item reserved for the small scale sector with investment of less than Rs 10 million is also exempt from obtaining environmental clearance from the Central Government under the Notification. Powers have been delegated to the State Governments for grant of environmental clearance for certain categories of thermal power plants. Setting up industries in certain locations considered ecologically fragile (eg Aravalli Range, coastal areas, Doon valley, Dahanu, etc.) are guided by separate guidelines issued by the Ministry of Environment of the Government of India.[For procedure to obtain environmental clearance, refer to para 21.1].

2. FOREIGN DIRECT INVESTMENT

Government wishes to facilitate foreign direct investment (FDI) and investment from Non-Resident Indians (NRI)s including Overseas Corporate Bodies (OCBs), that are predominantly owned by them, to complement and supplement domestic investment. Investment and returns are freely repatriable, except where the approval is subject to specific conditions such as lock in period on original investment, dividend cap, foreign exchange neutrality, etc. as per the notified sectoral policy.

2.1 Foreign direct investment is freely allowed in all sectors including the services sector, except where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the automatic route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government Approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB), chaired by the Secretary, Department of Industrial Policy and Promotion (Ministry of Commerce and Industry) with the Union Finance Secretary, Commerce Secretary, and other key Secretaries of the Government as its members.

Automatic Route

(a) New Ventures

2.2 All items/activities except the following fall under the automatic route for FDI/NRI/OCB investment upto 100 percent FDI:

i. All proposals that require an Industrial Licence which includes (i) the item requiring an Industrial Licence under the Industries (Development and Regulation) Act, 1951; (ii) foreign investment being more than 24% in the equity capital of units manufacturing items reserved for small scale industries; and (iii) all items which require an Industrial Licence in terms of the locational policy notified by Government under the New Industrial Policy of 1991.
ii. All proposals in which the foreign collaborator has a previous venture/tieup in India. The modalities prescribed in Press Note No. 18 dated 14.12.98 of 1998 series, shall apply in such cases.
iii. All proposals relating to acquisition of shares in an existing Indian company in favour of a foreign/NRI/OCB investor.
iv. All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted and/or whenever any investor chooses to make an application to the FIPB and not to avail of the automatic route.

Investment in Public Sector Units as also for EOU/EPZ/EHTP/STP units would also qualify for the Automaic Route. Investment under the Automatic Route shall continue to be governed by the notified sectoral policy and equity caps and RBI will ensure compliance of the same. The National Industrial Classificatrion (NIC) 1987 shall remain applicable for description of activities and classification for all matters relating to FDI/NRI/OCB investment:

Areas/Sectors/Activities hitherto not open to FDI/NRI/OCB investment shall continue to be so unless otherwise decided and notofied by Government. Henceforth any change in sectoral policy/sectoral equity cap shall be notified by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion.

(b) Existing Companies

2.3 Besides now companies, automatic route for FDI/NRI/OCB investment is also available to the existing companies to induct foreign equity. For existing companies with an expansion programme, the additional requirement are that (I) the increase in equity level must result from the expansion of the equity base of the existing company without acquisition of existing shares by NRI/OCB/foreign investors, (ii) the money to be remitted should be in the sector(s) under the automatic route. Otherwise the proposal would need Government approval through the FIPB. For this, the proposal must be supported by a Board Resolution of the existing Indian company.

2.4 For existing companies without an expansion programme, the additional requirements for eligibility for automatic route are (I) that they are engaged in the industries under automatic route (including additional activities covered under the automatic route regardless of whether the original activities were undertaken with Government approval or by accessing the automatic route), (ii) the increase in

equity level must be from expansion of the equity base and (iii) the foreign equity must be in foreign currency.

2.5 The earlier requirement that shares allotted on preferential basis shall not be transferable in any manner for a period of 5 years from the date of their allotment has now been modified to the extent that not more than 20 per cent of the entire contribution brought in by promoter cumulatively in public or preferential issue shall be locked in.

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

2.7 Equity participation by international financial institutions such as ADB, IFC, CDC, DEG , etc. in domestic companies is permitted through automatic route subject to SEBI/RBI regulations and sector specific caps on FDI.

2.8 In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian Companies to accept investment under this route without obtaining prior approval from RBI. Investors are required to notifiy the Regional Office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and file required documentation within 30 days of issue of shares to Foreign Investors. This facility is available to NRI/OCB investment also. [For procedure relating to automatic approval, refer to para 8.1].

Government Approval

2.9 For the following categories, Government approval for FDI through the FIPB shall be necessary:-

i. All proposals that require an Industrial Licence which includes (i) the item requiring an Industrial Licence under the Industries (Development and Regulation) Act, 1951; (ii) foreign investment being more than 24% in the equity capital of units manufacturing items reserved for small scale industries; and (iii) all items which require an Industrial Licence in terms of the locational policy notified by Government under the New Industrial Policy of 1991.
ii. All proposals in which the foreign collaborator has a previous venture/tieup in India. The modalities prescribed in Press Note No. 18 dated 14.12.98 of 1998 series, shall apply in such cases.
iii. All proposals relating to acquisition of shares in an existing Indian company in favour of a foreign/NRI/OCB investor.
iv. All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted and/or whenever any investor chooses to make an application to the FIPB and not to avail of the automatic route.

Areas/Sectors/Activities hitherto not open to FDI/NRI/OCB investment shall continue to be so unless otherwise decided and notofied by Government. Henceforth any change in sectoral policy/sectoral equity cap shall be notified by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion.

2.10 RBI has granted general permission under Foreign Exchange Management Act (FEMA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to notify the Regional Office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and to file the required document with the concerned Regional Offices of the RBI within 30 days after issue of shares to the foreign investors.

2.11 For greater transparency in the approval process, Government have announced guidelines for consideration of FDI proposals by the FIPB. The guidelines are stated in Annexure-III . The sector specific guidelines for FDI and Foreign Technology Collaborations are stated in Annexure-IV. [For procedure relating to Government approval, refer to para 8.2].

Issue and Valuation of Shares in case of existing companies

2.12 On receipt of the approval (either through the automatic route, or by Government) an existing company needs to propose allotment of preferential allocation of the required amount of equity to the foreign investor by a special resolution. The company can make the issue at market prices of the shares either at (a) the average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date, or (b) the average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the two weeks preceding the relevant date. The stock exchange referred to is the one at which the highest trading volume in respect of the share of the company has been recorded during the preceding six months prior to the relevant date. The relevant date is the date thirty days prior to the date on which the meeting of the General Body of the shareholders is convened. Other relevant guidelines of Securities and Exchange Board of India (SEBI)/RBI, including SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 wherever applicable, would need to be followed.

Foreign Investment in the Small Scale Sector

2.13 Under the small scale policy, equity holding by other units including foreign equity in a small scale undertaking is permissible up to 24 per cent. However there is no bar on higher equity holding for foreign investment if the unit is

willing to give up its small scale status. In case of foreign investment beyond 24 per cent in a small scale unit which manufactures small scale reserved item(s), an industrial license carrying a mandatory export obligation of 50 per cent would need to be obtained.

Foreign Investment Policy for Trading Activities

2.14 Foreign investment for trading can be approved through the automatic route up to 51% foreign equity, and beyond by the Government through FIPB. For approval through the automatic route, the requirement would be that (i) the undertaking concerned should be an export house, trading house, super trading house or a star trading house registered under the provisions of the Export and Import policy in force. However, under the Government route

i. 100% FDI is permitted in case of trading companies for the following activities:

- exports;
- bulk imports with export/ex-bonded warehouse sales;
- cash and carry wholesale trading;
- other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group and not for third party use or onward transfer/distribution/sales.

ii The following kinds of trading are also permitted, subject to provisions of EXIM Policy:

a. Companies for providing after sales services (that is not trading per se)
b. Domestic trading of products is permitted at the wholesale level by such trading companies who wish to market manufactured products on behalf of their joint ventures in which they have equity participation in India.
c. Trading of hi-tech items/items requiring specialised after sales service.
d. Trading of items for social sector
e. Trading of hi-tech, medical and diagnostic items.
f. Trading of items sourced from the small scale sector which, based on technology provided and laid down quality specifications, a company can market that item under its brand name.
g. Domestic sourcing of products for export.
h. Test marketing of such items for which a company has approval for manufacture provided such test marketing facility will be for a period of two years, and investment in setting up manufacturing facilities commences simultaneously with test marketing.
i. FDI upto 100% permitted for e-commerce activities subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in 5 years, if these companies are listed in other parts of the world. Such companies would engage only in business to business (B2B) e-commerce and not in retail trading.

2.15 Both in the case of automatic and Government approvals, the valuation and pricing of shares would be governed by the provisions stated in paragraph 2.11 above. Closely held companies would also be governed, mutatis mutandis, by the same guidelines.

Other Modes of Foreign Direct Investments

2.16 Global Depository Receipts(GDR)/American Deposit Receipts (ADR)/Foreign Currency Convertible Bonds (FCCB): Foreign Investment through GDRs/ADRs, Foreign Currency Convertible Bonds (FCCBs) are treated as Foreign Direct Investment. Indian companies are allowed to raise equity capital in the international market through the issue of GDR/ADRs/FCCBs. These are not subject to any ceilings on investment. An applicant company seeking Government's approval in this regard should have a consistent track record for good performance (financial or otherwise) for a minimum period of 3 years. This condition can be relaxed for infrastructure projects such as power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.

2.17 There is no restriction on the number of GDRs/ADRs/FCCBs to be floated by a company or a group of companies in a financial year. A company engaged in the manufacture of items covered under Automatic Route is likely to exceed the precentage limits under the Automatic Route, whose direct foreign investment after a proposed GDR/ADR/FCCBs issue is likely to exceed 50 per cent/51 per cent/74 per cent as the case may be, or which is implementing a project not contained in project falling under Government Approval route, would need to obtain prior Government clearance through FIPB before seeking final approval from the Ministry of Finance.

2.18 There are no end-use restrictions on GDR/ADR issue proceeds, except for an express ban on investment in real estate and stock markets. The FCCB issue proceeds need to conform to external commercial borrowing end use requirements; in addition, 25 per cent of the FCCB proceeds can be used for general corporate restructuring.

Preference Shares

2.19 Foreign investment through preference shares is treated as foreign direct investment. Proposals are processed either through the automatic route or FIPB as the case may be. The following guidelines apply to issue of such shares:-
(i) Foreign investment in preference share are considered as part of share capital and fall outside the External Commercial Borrowing (ECB) guidelines/cap
(ii) Preference shares to be treated as foreign direct equity for purpose of sectoral caps on foreign equity, where such caps are prescribed, provided they carry a conversion option. If the preference shares are structured without such conversion option, they would fall outside the foreign direct equity cap.
(iii) Duration for conversion shall be as per the maximum limit prescribed under

the Companies Act or what has been agreed to in the share holders agreement whichever is less.
(iv) The dividend rate would not exceed the limit prescribed by the Ministry of Finance.
(v) Issue of Preference Shares should conform to guidelines prescribed by the SEBI and RBI and other statutory requirements.

3. INVESTMENT BY NON RESIDENT INDIANS OVERSEAS CORPORATE BODIES

3.1 Investment by the NRIs and OCBs in which the NRIs hold at least 60 per cent equity is treated as foreign direct investment. For all sectors excluding those falling under Government Approval, NRIs and OCBs are eligible to bring investment through the Automatic Route of RBI. All other proposals which do not fulfil any or all of the criteria for automatic approval are considered by the Government through the FIPB.

3.2 The NRIs and OCBs are allowed to invest in housing and real estate development sector, in which foreign direct investment is not permitted. They are allowed to hold even100 per cent equity in civil aviation sector in which otherwise foreign equity only up to 40 per cent is permitted. Similarly for the banking sector, NRIs/ OCBs can hold 40 per cent equity inclusive of foreign direct investment. Equity participation by foreign banking companies, foreign financial companies, and multilateral institutions as co-promoter and/or technical collaborator is also permitted up to 20 per cent. Multilateral institutions have a special dispensation to invest beyond 20 per cent to the extent of shortfall in NRI contributions, subject to the overall limit of 40 per cent. Investment made by the NRIs and OCBs are fully repatriable except in the case of real estate, which has a 3 year lock-in period on original investment and 16 per cent cap on dividend repatriation.

4. FOREIGN TECHNOLOGY AGREEMENTS

4.1 With a view to injecting the desired level of technological dynamism in Indian industry and for promoting an industrial environment where the acquisition of technological capability receives priority, foreign technology induction is encouraged both through FDI and through foreign technology collaboration agreements. Foreign technology collaborations are permitted either through the automatic route under delegated powers exercised by the RBI, or by the Government. However, cases involving industrial licenses/small scale reserved items do not qualify for automatic approval and would require consideration and approval by the Government. Automatic route for technology colloboration would also not be available to those who have, or had any previous technology transfer/trade-mark agreement in the same or allied field in India. Further, automatic approval for EOU/EHTP/STP units are governed by provisions under Para 5.2 and 6.2.

Automatic Approval

4.2 The Reserve Bank of India, through its regional offices, accords automatic approval to all industries for foreign technology collaboration agreements subject to (i) the lump sum payments not exceeding US $ 2 Million; (ii) royalty payable being limited to 5 per cent for domestic sales and 8 per cent for exports, subject to a total payment of 8 per cent on sales over a 10 year period; and (iii) the period for payment of royalty not exceeding 7 years from the date of commencement of commercial production, or 10 years from the date of agreement, whichever is earlier (The aforesaid royalty limits are net of taxes and are calculated according to standard conditions). [For procedure for automatic approval, refer to para 9.1].

4.2(i) : Payment of royalty upto 2% for exports and 1% for domestic sales is allowed under automatic route on use of trademarks and brand name of the foreign collaborator without technology transfer.

4.2(ii): Payment of royalty upto 8% on exports and 5% on domestic sales by wholly owned subsidiaries to offshore parent companies is allowed under the automatic route without any restriction on the duration of royalty payments.

Government Approval

4.3 For the following categories, Government approval would be necessary:
(a)proposals attracting compulsory licensing
(b) Items of manufacture reserved for the small acale sector
(c) Proposals involving any previous joint venture, or technology transfer/trademark agreement in the same or allied field in India. The definition of "same" and "allied" field would be as per 4 digit NIC 1987 Code and 3 digit NIC 1987 Code.
(d) Extension of foreign technology collaboration agreements (including those cases which may have received automatic approval in the first instace)
(e) Proposals not meeting any or all of the parameters for automatic approval as given in para 4.2.

[For procedure for Government approval refer to Para 9.2]

4.4 The items of foreign technology collaboration which are eligible for approval through the automatic route, and by the Government are technical know how fees, payment for design and drawing, payment for engineering service and royalty. Exclusive payment for use of brand names and trademarks are not allowed, although such payments may be subsumed in the other fee payable.

4.5 Payments for hiring of foreign technicians, deputation of Indian technicians abroad, and testing of indigenous raw material, products, indigenously developed technology in foreign countries are governed by separate RBI procedures and rules and are not covered by the foreign technology collaboration approval.

Similarly, payments for imports of plant and machinery and raw material are also not covered by the foreign technology collaboration approval. For any of these items, entrepreneurs may contact the RBI.

5. 100% EXPORT ORIENTED UNITS/ EXPORT PROCESSING ZONES

5.1 100 per cent Export Oriented Units (EOUs) and units in the Export Processing Zones (EPZs), enjoy a package of incentives and facilities, which include duty free imports of all types of capital goods, raw material, and consumables in addition to tax holidays against export.

Automatic Approval

5.2 The Development Commissioners (DCs) of Export Processing Zones (EPZs) /Free Trade Zones (FTZS) accord automatic approval to projects where
(a) items do not attract compulsory licensing;
(b) where the location is in conformity with the prescribed parameters;
(c) the units undertake to achieve exports and value addition norms as prescribed in the Export and Import Policy in force;
(d) the CIF value of imported capital goods is financed through foreign equity,or foreign exchange required for import of plant and equipment (net of taxes) is within Rs. 100 Million, and in the case of import of second-hand capital goods if an Import Licence is not required;
(e) Where the foreign technology agreement if any, envisages a lump sum payment not exceeding US $ 2.00 Million and royalty payment up to 8% on exports and 5% on DTA sales (net of taxes) over a period of 5 years from the date of commencement of commercial production.
(f) where the exports are to general currency/hard currency areas;
(g) where the unit is amenable to bonding by customs authorities; and
(h) the unit has projected the minimum export turnover, as specified in the Handbook of Procedures. All proposals for FDI/NRI/OCB investments in EOU/EPZ units qualify for approval through Automatic Route subject to parameters listed under Paragraph 2.8.

[For procedure for automatic approval, refer to para 10.1 & 10.5].

5.3 Conversion of existing Domestic Tariff Area (DTA) units into EOU is also permitted under automatic route, if the DTA unit satisfies the parameters mentioned above and there is no outstanding export obligation under any other Export Oriented scheme of the Government of India.

Government Approval

5.4 All proposals which do not meet any or all of the parameters for automatic approval need to be considered and approved by the Government. All proposals falling under paragraph 2.8 for FDI in E0Us and units located in EPZ/FTZ need

to obtain Government approval. [For procedure to obtain Government approval, refer to para 10.2, 10.3, 10.6, and 10.7].

6. ELECTRONIC HARDWARE TECHNOLOGY PARK , SOFTWARE TECHNOLOGY PARK SCHEMES AND SPECIAL ECONOMIC ZONES

6.1 In order to provide impetus to the electronics industry, to enhance its export potential and to develop an efficient electronic component industry, Electronic Hardware Technology Park (EHTP), Software Technology Park (STP) schemes and Special Economic Zones (SEZ) offer a package of incentives and facilities like duty free imports on the lines of the EOU Scheme, deemed exports benefits and tax holidays.

Automatic Approval

6.2 The Directors of STPs in respect of STP proposals; and the Designated Officers in respect of EHTP proposals accord automatic approval if -
(a) the items do not attract compulsory licensing; (b) the location is in conformity with the prescribed parameters; (c) the export obligation laid down in the respective EHTP scheme or STP scheme is fulfilled; (d) the CIF value of the imported capital goods required for the project does not exceed Rs. 100 million; (e) foreign technology proposals envisaged, if any, do not involve lump sum know how fee exceeding US$ 2 million, 8 per cent royalty on export and 5 per cent royalty on domestic sales (all net of taxes) over a period of 5 years from the date of commencement of commercial production; (f) the exports are to general currency/hard currency area; (g) the unit is amenable to bonding by the Customs, and all the manufacturing operations are carried out in the same premises and the proposal does not envisage sending out of the bonded area any raw material or intermediate products for any other manufacturing or processing activity. All proposals for FDI/NRI/OCB investments in EHTP/STP units are eligible for approval through AUtomatic Route subject to parameters listed under para 2.8[For procedure to obtain Automatic Approval, refe r to para 11.2].

FDI upto100% is allowed through the automatic route for all manufacturing activities in Special Economic Zones (SEZs), except for the following activities :

a. arms and ammunition, explosives and allied items of defence equipments defence aircraft and warships;
b. atomic sustances;
c. narcotics and psychotropic substances and hazardous chemicals;
d. distillation and brewing of alcoholic drinks; and
e. cigarettes/cigars and manufactured tobacco substitutes.

Government Approval

6.3 All proposals which do not meet any or all of the parameters for automatic approval need to be considered and approved by the Government. Also, Government approval for FDI/NRI/OCB investments under EHTP/ STP need to be obtained through the FIPB in respect of proposals covered under para 2.8.[For procedure to obtain Government approval, refer to para 11.3 & 11.4].

PROCEDURES

7.APPROVAL PROCEDURES

The description of activities seeking all industrial approvals including foreign direct investment are required to be given as per the National Industrial Classification of All Economic Activities (NIC), 1987, published by the Central Statistical Organisation, Ministry of Planning, New Delhi. Copies of the publication can be obtained on payment from Controller of publications, 1 Civil Lines, Delhi-1 10054 or from any outlet dealing in Government Publications.

7.1 General Procedures

IEM:

(a) All industrial undertakings exempt from the requirements of industrial licensing, including existing units undertaking substantial expansion, need to file information in the prescribed Industrial Entrepreneurs Memorandum, i.e. Form IEM (Annexure-VII) . The form is available at all outlets dealing in Government Publications, Indian Embassies, the Entrepreneurial Assistance Unit (EAU) of the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Udyog Bhavan, New Delhi-110011, and can also be downloaded from the Web site of the SIA (http://indmin.nic.in).

(b) The Memorandum (IEM) should be submitted to the EAU of the SIA in person or by post. A computer acknowledgement containing the SIA Registration Number (for future reference) will be issued across the counter immediately if delivered in person or sent by post if received through post. No further approval from SIA is required.

(c) The IEM should be submitted along with a crossed demand draft of Rs.1000/- drawn in favour of "The Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry", payable at the State Bank of India, Nirman Bhawan Branch, New Delhi up to 10 items proposed to be manufactured in the same unit. For more than 10 items, an additional fee of Rs 250 up to 10 additional items needs to be paid through crossed demand draft.

(d) All Industrial undertakings also need to file information in Part 'B' of the Memorandum at the time of commencement of commercial production. The

prescribed form is appended to Form IEM. This second Memorandum has also to be filed with the EAU in SIA, but no fee is required.

(e) No amendment/modifications are made to any IEM filed before 30th June, 1998 except for clerical errors. Where any amendment/modification is sought to be made in such IEMs, a fresh memorandum in Form IEM, along with the prescribed fee has to be filed for which a fresh acknowledgement will be issued. An IEM would be cancelled/deleted from the SIA records if, on scrutiny, it is found that the proposal contained in the IEM is licensable.

(f) In respect of IEMs filed in the new form made effective from 1st July, 1998, amendments/modifications will be made on the request of the entrepreneur, as per the notified procedure.

7.2 Procedural Requirements for Licensed Sectors

Industrial Licence:

(a) All industrial undertakings subject to compulsory industrial licensing are required to submit an application in the prescribed format, i.e. Form FC-IL(Annexure-VIII). Licenses are granted under the provisions of the Industries(Development and Regulation) Act, 1951. The form is available in the EAU of the SIA, at all outlets dealing in Government Publications, Indian Embassies, and can also be downloaded from the Web site of the SIA - **http://indmin.nic.in.**. Applications for the manufacture of chlorine and caustic soda, along with associated products should include information regarding the chlorine utilisation programme.

(b) Application in Form FC-IL should be submitted to the EAU of the SIA, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Udyog Bhawan, New Delhi - 110011. Approvals will normally be available within 4- 6 weeks of filling the application.

(c) The application, in Form FC-IL, should be submitted along with a crossed demand draft of Rs.2500/- drawn in favour of the Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry, payable at the State Bank of India, Nirman Bhawan, New Delhi.

Carry on Business (COB) Licence

(d) A COB licence is required when a small scale unit exceeds the prescribed small scale limit of investment in plant and machinery by way of natural growth and continues to manufacture small scale reserved item(s). Also, if exemption from Industrial licensing granted for any item is withdrawn, the industrial undertakings who are manufacturing such item(s) require COB licence. The application for COB licence should be submitted in prescribed form "EE" to the

SIA, Department of Industrial Policy and Promotion, along with a crossed demand draft of Rs.2500/- drawn in favour of the Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry, payable at the State Bank of India, Nirman Bhawan, New Delhi.

8. FOREIGN DIRECT INVESTMENT

8.1 Procedure For Automatic Route

The proposals for approval under the automatic route are to be made to the Reserve Bank of India in the FC(RBI) form. In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian Companies to accept investment under this route without obtaining prior approval from Reserve Bank of India. However, investors will have to file the required documents with the concerned Regional Office of the RBI within 30 days after issue of shares to foreign investors. This facility is available to NRI/OCB investment also.

8.2 Procedure For Government Approval

FIPB

(a) All other proposals for foreign investment, including NRI/OCB investment and foreign investment in EOU/EPZ/STP/EHTP units, which do not fulfil any or all of the parameters prescribed for automatic approval, as given in paragraph 2.8, 3.1, and 3.2 are considered for approval on merits by the Government. All such proposals are considered for approval by the Foreign Investmetn Promotion Board (FIPB). The FIPB also grants composite approvals involving foreign technical collaborations and setting up of Export Oriented Units involving foreign investment/foreign technical collaboration.

(b) Applications to FIPB for approval of foreign investment should be submitted in Form FC-IL(Annexure-VIII). Plain paper applications carrying all relevant details are also accepted. No fee is payable. The following information should form part of the proposal submited to FIPB:

i. Whether the applicant has had or has any previous financial/technical collaboration or trade mark agreement in India in the same or allied field for which approval has been sought?; and
ii. If so, details thereof and the justification for proposing the new venture/technical collaboration (including trade marks).

(c) The application can be submitted with the EAU of the SIA, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Udyog Bhavan, New Delhi - 110011. Applications can also be submitted with Indian Missions abroad who will forward them to the SIA for further processing.

(d) Foreign investment proposals received in the SIA are placed before the Foreign Investment Promotion Board (FIPB) within 15 days of its receipt. The Board has the flexibility of purposeful negotiation with the investors and considers project proposals in totality in order to ensure optimum foreign direct investment into the country. The recommendations of FIPB in respect of project proposals involving a total investment of up to Rs. 6 billion are considered and approved by the Industry Minister. Projects with a total investment exceeding Rs. 6 billion are submitted to the Cabinet Committee on Economic Affairs (CCEA) for decision.

(e) The decision of the Government in all cases are conveyed by the SIA normally within 30 days.

(f) RBI has granted general permission under Foreign Exchange Management Act (FEMA)in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to file the required document with the concerned Regional Offices of the RBI within 30 days after issue of shares to the foreign investors.

(g) Similarly, for inward remittance and issue of shares to NRI/OCB up to 100 per cent equity also, prior permission of RBI is not required. These companies have to file the required documents with the concerned Regional Offices of RBI within 30 days after the issue of shares to NRIs/OCBs.

9. FOREIGN TECHNOLOGY COLLABORATION

9.1 Procedure for Automatic Approval

Applications for automatic approval for such foreign technology agreements should be submitted in Form FT (RBI) with the concerned Regional Offices of Reserve Bank of India. No fee is payable. Approvals are available within 2 weeks.

9.2 Procedure for Government Approval

(a) All other proposals for foreign technology agreement, not meeting any or all of the parameters for automatic approval, and all cases of extension of existing foreign technical collaboration agreement, are considered for approval, on merits, by the Government. Application in respect of such proposals should be submitted in Form FC-IL to the Secretariat for Industrial Assistance, Department of Industrial Policy & Promotion, Ministry of Industry, Udyog Bhavan, New Delhi. No fee is payable.
The following information should form part of the proposal submited to SIA:

i. Whether the applicant has had or has any previous financial/technical collaboration or trade mark agreement in India in the same or allied field for which approval has been sought?; and
ii. If so, details thereof and the justification for proposing the new venture/technical collaboration (including trade marks).

Approvals are normally available within 4 to 6 weeks of filing the application.

10. 100% EXPORT ORIENTED UNITS AND UNITS SET UP IN EPZ/FTZ/SEZ

A.PROCEDURE FOR APPROVAL FOR EOUs

10.1 Applications in the prescribed form for 100 per cent E0Us should be submitted to the Development Commissioners (DCs) of the Export Processing Zones (EPZS) concerned for automatic approval and to the SIA for Government approval. The Form is printed in the Handbook of Procedures for Export and Import, 1997-2002 published by the Ministry of Commerce and is also available at all outlets dealing in Government Publications. The application should be submitted along with a crossed demand draft of Rs.2500/- (licensed items) or Rs. 1000 (non-licensed items) drawn in favour of the "Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry", payable at the State Bank of India, Nirman Bhavan Branch, New Delhi.

10.2 Procedure for Automatic Approval for E0Us

Applications in the prescribed form for 100 per cent E0Us should be submitted to the DCs of the EPZs. Wherever, the proposals meet the criteria for automatic approval, as given in paragraph 5.2, the DC of the EPZ would issue approval letters within 2 weeks. All other proposals shall be forwarded by the DC to the Board of Approvals for E0Us for consideration.

10.3 Procedure for Government Approval for E0Us

Applications in the Prescribed Form should be submitted to the EAU of the SIA in the Department of Industrial Policy & Promotion, Udyog Bhawan, New Delhi. On consideration of the proposal by the Board of Approvals, a decision would be normally conveyed in 6 weeks.

10.4 Procedure for foreign direct investment/NRI investment

All proposals for FDI/NRI/OCB investment in 100% EOUs are eligible for approvals under Automatic Route subject to parameters listed in para 2.8. All proposals not covered under Automatic Route the applicant should seek seperate approval of the FIPB as per the procedure contained in Para 8.2 above.

B. PROCEDURE FOR APPROVAL FOR UNITS LOCATED IN EPZ/FTZ/SEZ

10.5 Applications for setting up units in EPZs/SEZs be submitted to the concerned DC of the EPZ/SEZ. The Form is printed in the Handbook of Procedures for Export and Import, 1997-2002 published by the Ministry of Commerce and is also available at all outlets dealing in Government Publications. The application should be submitted along with a crossed demand draft of Rs.2500/- (licensed items) or Rs. 1000 (non-licensed items) drawn in favour of the "Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry", payable at the State Bank of India, Nirman Bhavan Branch, New Delhi.

10.6 Procedure for Automatic Approval for units located in EPZ/FTZ/SEZ

Applications in the prescribed form for 100 per cent E0Us should be submitted to the DCs of the EPZs/SEZs. Wherever, the proposals meet the criteria for automatic approval, as given in paragraph 5.2 the DC of the EPZ/SEZ would issue approval letters within 2 weeks. All other proposals shall be forwarded by DC to the Board of Approvals for EPZ/SEZ for consideration

10.7 Procedure for Government Approval for units located in EPZ/FTZ/SEZ

Applications in the Prescribed Form should be submitted to the Development Commissioner of the EPZ/FTZ/SEZ concerned. Such applications shall be forwarded by DC to the Board of Approvals for EPZ for consideration. On consideration of the proposal by the Board of Approvals, a decision would be conveyed normally within six weeks.

10.8 Procedure for Foreign Direct Investment / NRI Investment

All proposals for FDI/NRI/OCB investment in EPZ/SEZ units are eligible for approvals under Automatic Route subject to parameters listed in para 2.8. All proposals not covered under Automatic Route the applicant should seek seperate approval of the FIPB as per the procedure contained in Para 8.2 above.

11. EHTP/STP UNITS

11.1 Procedure for Approval for EHTP/STP

Application, in the prescribed form, should be submitted to the concerned Directors of STPs or the Designated Officers of EHTPs for automatic approval, and to the SIA for Government approval. The application should be submitted along with a crossed demand draft for Rs. 1000/- drawn in favour of the "Pay & Accounts Offer, Department of Industrial Development, Ministry of Industry", payable at State Bank of India, Nirman Bhawan, New Delhi.The form is available in any outlet dealing with Government Publications.

11.2 Procedure for Automatic Approval for EHTP/STP

Application, in the prescribed form, should be submitted to the concerned Directors of STPs or the Designated Officers of EHTPs for automatic approval Wherever, the proposals meet the criteria for automatic approval, as given in paragraph 6.2, the approval letters are issued within 2 weeks. All other proposals shall be forwarded to the Inter Ministerial Standing Committee for consideration.

11.3 Procedure For Government Approval For EHTP/STP

Application, in the prescribed form, should be submitted to the Officer designated by the Ministry of Information Technology for the purpose. Such applications shall be forwarded by the Officer designated to the Inter Ministerial Standing Committee in the Ministry of Information Technology for consideration. On consideration by the Inter Ministerial Standing Committee, a decision would be normally conveyed within six weeks.

PROCEDURE FOR FOREIGN DIRECT INVESTMENT / NRI INVESTMENT

All proposals for FDI/NRI/OCB investment in EHTP/STP units are eligible for approvals under Automatic Route subject to parameters listed in para 2.8. All proposals not covered under Automatic Route the applicant should seek seperate approval of the FIPB as per the procedure contained in Para 8.2 above.

12. INVESTMENT PROMOTION AND FACILITATION

12.1 Foreign Investment Promotion Board (FIPB)

The Government has revamped the FIPB and transferred it to the Industry Ministry. The FIPB is the nodal, single window agency for all matters relating to FDI as well as promoting investment into the country. It is chaired by Secretary, Industry (Department of Industrial Policy and Promotion). Its objective is to promote FDI into India:-

[i] by undertaking investment promotion activities in India and abroad,

[ii] facilitating investment in the country by international companies, non-resident Indians and other foreign investors,

[iii] through purposeful negotiation/discussion with potential investors,

[iv] early clearance of proposals submitted to it, and

[v] review policy and put in place appropriate institutional arrangements, transparent rules and procedures and guidelines for investment promotion and approvals.

12.2 Role of FIPB

After its revamping, the FIPB has played a proactive role in promoting and attracting FDI into the country and further facilitating expeditious clearance to the proposals submitted to it. The FIPB has also decided to monitor implementation of mega projects to further facilitate investment and remove bottlenecks and as part of this exercise, to get studies commissioned through professional bodies and undertake other promotional measures.

12.3 Mailbox facility for filing of proposals for FIPB

A mailbox facility is available on the SIA website in the name of siaapplication@ub.nic.in for filing applications for FIPB.

13 FOREIGN INVESTMENT IMPLEMENTATION AUTHORITY (FIIA)

Government has set up the Foreign Investment Implementation Authority (FIIA) in the Ministry of Commerce & Industry. The FIIA will facilitate quick translation of Foreign Director Investment (FDI) approvals and implementations, provide a pro-active one stop after care service to foreign investors by helping them obtain necessary approvals, sort out operational problems and meet with various Government Agencies to find solutions to problems and maximising opportunities through a partnership approach.

13.2 Role The FIIA shall take steps to:

Understand and address concerns of investors;

Understand and address concerns of approving authorities;

Initiate multi agency consultations; and

Refer matters not resolved at the FIIA level to high levels on a quarterly basis, including cases of projects slippage on account of implementation bottlenecks.

13.3 Functions

The functions of the FIIA shall be as under:

Expediting various approvals/permissions;

Fostering partnership between investors and government agencies concerned;

Resolve difference in perceptions;

Enhance overall credibility;

Review policy framework; and

Liaise with the Ministry of External Affairs for keeping India's diplomatic missions abroad informed about translation of FDI approvals into actual investment and implementation.

13.4 The modalities of functioning of FIIA shall be as under:

i. The FIIA shall set up a Fast Track Committee (FTC) to review and monitor mega projects. It will nominate members of the FTC from representatives of various Ministries / agencies/State Government at the working level. The representative of the AM concerned shall act as the project coordinator and shall head the FTC. The FTC shall prescribe the time frame within which various approvals/permissions are to be given on a project to project basis. FTC shall also flag issues that need to be resolved by FIIA. Based on the inputs provided by FTC, the FIIA will give its recommendations on each project on the basis of which Administrative Ministries/State Government shall take action under their own laws and regulations.

ii. The FIIA will initiate inter Ministerial consultations and make appropriate recommendations to the competent authority, i.e. Ministry/Department concerned at the Central Government level and the State Government, as the case may be, on issues requiring policy intervention.

iii. The FIIA will act as a single point interface between the investor and Government agencies including Administrative Ministries/State Governments/Pollution Control board/DGFT/Regulatory Authorities/Tax Authorities/Company Law Board, etc.

iv. The FIIA shall meet once every month to review cases involving investment of Rs. 100 crore or more, consider references received from the FTC, and monitor the functioning of various FTCs. It would also entertain any complaint regarding implementation bottlenecks from FDI approval holders regardless of the quantum of investment.

v. The FIIA shall also make recommendations from time to time on any issue relating to the speedy implementation of FDI projects and also to provide transparency in government functioning with respect to FDI projects.

13.5 Secretariat for Industrial Assistance

The Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion shall function as the Secretariat of the FIIA.

Approval holders are requested to send their suggestions and problems, if any to any of the following officers in SIA or at FIIA's e-mail address at fiia@ub.nic.in

Joint Secretary, SIA

Director (Foreign Collaboration/Foreign Direct Investment/FIPB)

Deputy Secretary (IP&ID Cell)

The issues raised will be taken up with the concerned Department/authorities and will be discussed in the meeting of FIIA.

14. FOREIGN INVESTMENT PROMOTION COUNCIL (FIPC)

Apart from making the policy framework investor-friendly and transparent, promotional measures are also taken to attract Foreign Direct Investment into the country. The Government has constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Industry. This comprises professionals from Industry and Commerce. It has been set up to have a more target oriented approach toward Foreign Direct Investment promotion. The basic function of the Council is to identify specific sectors/projects within the country that require Foreign Direct Investment and target specific regions/countries of the world for its mobilisation.

15. SECRETARIAT FOR INDUSTRIAL ASSISTANCE (SIA)

15.1 SIA

SIA has been set up by the Government of India in the Department of Industrial Policy and Promotion in the Ministry of Commerce & Industry to provide a single window for entrepreneurial assistance, investor facilitation, receiving and processing all applications which require Government approval, conveying Government decisions on applications filed, assisting entrepreneurs and investors in setting up projects, (including liaison with other organisations and State Governments) and in monitoring implementation of projects. It also notifies all Government Policy relating to investment and technology, and collects and publishes monthly production data for 213 select industry groups.

15.2 SIA's Promotional Activities

As an investor friendly agency, it provides information and assistance to Indian and foreign companies in setting up industry and making investments. It guides prospective entrepreneurs and disseminates information and data on a regular basis through its two monthly newsletters the "SIA Newsletter" and the "SIA Statistics" as also through its Website address, i.e. http://indmin.nic.in . It also assists potential investors in finding joint venture partners and provides complete

information on relevant policies and procedures, including those, which are specific to sectors and the State Governments.

15.3 Entrepreneurial Assistance Unit (EAU) of the SIA

The Entrepreneurial Assistance Unit functioning under the Secretariat for Industrial Assistance, Department of Industrial Policy and Promotion provides assistance to entrepreneurs on various subjects concerning investment decisions. The unit receives all papers/applications related to industrial approvals and immediately issues a computerised acknowledgement which also has an identity/reference number. All correspondence with the SIA should quote this number. In case of papers filed by post, the acknowledgement will be sent by post. The Unit extends this facility to all papers/applications relating to IEMs, Industrial Licences, Foreign Investment, Foreign Technology Agreements, 100 per cent EOUs, EHTP, STP Schemes, etc.

15.4 The Unit also attends to enquiries from entrepreneurs relating to a wide range of subjects concerning investment decisions. It furnishes clarifications and arranges meetings with nodal officers in concerned Ministries/Organisations. The Unit also provides information regarding the current status of applications filled for various industrial approvals.

15.5 Investment Promotion and Infrastructure Development (IP & ID) Cell

In order to give further impetus to facilitation and monitoring of investment, as well as for better coordination of infrastructural requirements for industry, a new cell called the "Investment Promotion and Infrastructure Development Cell" has been created. The functions of the Cell include:-

[a] Dissemination of information about investment climate in India;

[b] Investment facilitation;

[c] Developing and distributing multimedia presentation material and other publications;

[d] Organising Symposiums, Seminars, etc. on investment promotion;

[e] Liaison with State Governments regarding investment promotion;

[f] Documentation of single window systems followed by various States;

[g] Match-making service for investment promotion;

[h] Coordination of progress of infrastructure sectors approved for investment/technology transfer, power, telecom, ports, roads, etc.;

[i] Facilitating Industrial Model Town Projects, and Industrial Parks, etc.;

[j] Promotion of Private Investment including Foreign Investment in the infrastructure sector;

[k] Compilation of sectoral policies, strategies and guidelines of infrastructure sectors, both in India and abroad; and

[l] Facilitating preparation of a perspective plan on infrastructure requirements for industry.

15.6 Project Monitoring Wing

With a view to monitoring the implementation of projects approved, and for facilitating solution to investor problems, a Project Monitoring Wing has been created within the IP&ID Cell. The functions of the Project Monitoring Wing are as follows:

(i) Coordination with Central and State level Ministries/Departments concerned and related agencies for tracking and monitoring approved projects, and compilation and analyses such information;

(ii) Direct contact, wherever necessary, with entrepreneurs and updation of the information on projects, and provision of necessary assistance.

16. NODAL OFFICERS

16.1 The Department of Industrial Policy and Promotion has identified officers at the Deputy Secretary/Director level as Nodal officers for facilitation of all matters relating to the industrial projects pertaining to a State. For large projects involving sizeable amount of FDI, officers have been identified in the Department of Industrial Policy and Promotion and other departments concerned (e.g. the Ministry to which the investment proposal pertains) and the State Government to act as contact officers so that these projects can be implemented within the time schedule. The officers of the Project Monitoring Wing are in touch with the contact officers.

17. FOCUS WINDOWS

17.1 The Department of Industrial Policy and Promotion also has opened Country Focus Windows for countries with sizeable investment interest in India. At present, the Focus Window cover countries such as USA, Germany, France, Switzerland, UK, Australia, Japan and Korea. For each focus window a senior officer in the Department provides facilitation and assistance.

17.2 SIA's publication 'India Investment Guide' is now available in the Japanese,French and German languages.

18. PUBLICATIONS

18.1 SIA Newsletter

This is a monthly publication and covers information on data relating to Foreign Direct Investment, NRI investment, sectoral break-ups, countrywise break-up, all approvals accorded for Foreign Direct Investment, and NRI investment during the month, FDI inflows, and policy notifications issued during the month. Annual issue of SIA Newsletter has been officially released and is now available.

18.2 SIA Statistics

This is also a monthly publication which contains data relating to Industrial Licences, approvals granted for setting up 100 per cent Export Oriented Units, details of approvals for Industrial Licences, EOUs, Foreign Technical Collaboration etc., monthly data on industrial production of 213 select industry groups, as well as policy announcements by Government during the month. Annual issue of SIA Statistics has been officially released and is now available.

18.3 Other Publications

These publications include this Manual as well as sector specific publications, such as on the Indian Automobile industry, Cement industry, Engineering industries, Leather industries, etc. A set of publications relating to the Infrastructure sector with specific volumes on Ports, Roads, Power, Telecom, and Railways is also published. Other publications include information on Current taxation and duty structure, Entry options for business in India, and the like. A comprehensive publication 'India Investment Guide' has recently been published.

All or any of these publications are available through the EAU of the SIA, the Investment Promotion and Infrastructure Development Cell, as also Indian Missions abroad. These can also be down loaded from the SIA Website.

19. SIA WEBSITE (http://indmin.nic.in)

19.1 The Home page of the SIA has been created with the intention to convey information relating to the investment climate in India and contains the aforesaid publications, State Industrial Policies, website directory of organisations, forthcoming promotional events, projects as are on offer, details regarding availability of land/industrial sheds through State Government agencies, etc.

19.2 On line advisory services through chat room,/ bullitin board are available during prescribed hours on Internet through SIA website. Assistance for drafting and filing of all applications with SIA is also provided.

19.3 SIA website is hyperlinked to the website of all ministries/departments of the Central Government as well as State Governments, Banks, Financial Institutions and Industry Associations

20. SUBMISSION OF MONTHLY PRODUCTION RETURNS

20.1 All industrial undertakings, whether exempt or not from compulsory industrial licensing, are statutorily required to submit a monthly production return in the proforma to the concerned technical authorities viz. Deputy Director (Statistics), Secretariat for Industrial Assistance (SIA), Department. of Industrial Policy and Promotion, Iron and Steel Controller; Coal Controller, Directorate of Sugar; Directorate of Vanaspati, Vegetable Oils and Fats and Textile Commissioner, as the case may be. A copy of the monthly production return should also be submitted to the concerned Administrative Ministry/Department.

20.2 In the case of small scale industrial undertakings, the monthly production return should be submitted to the appropriate State Government or Commissioner of Industries and to the Department of Small Scale and Agro & Rural Industries, Government of India along with a copy to the Small Industries Service Institute.

21. PROCEDURE FOR OTHER ENVIRONMENTAL CLEARENCES

21.1 Entrepreneurs are advised to approach Ministry of Environment and Forests, Paryavaran Bhavan, Phase II, CGO Complex, Lodhi Road, New Delhi- 110003.

22. INFORMATION ON EXPORTS AND IMPORTS

22.1 Exports and imports of plant machinery would be as per the existing Export-Import Policy in force. For any information or facilitation, entrepreneurs can contact the Directorate General of Foreign Trade (DGFT), Ministry of Commerce & Industry, Udyog Bhavan, New Delhi-110011.

23. EXTERNAL COMMERCIAL BORROWINGS

23.1 Applications may be submitted by the borrowers in the prescribed format to the Joint Secretary(ECB), Department of Economic Affairs, Ministry of Finance, North Block, New Delhi-110001. The policy and procedures are contained in the guidelines issued by that Ministry and are available on the SIA website.

24. COMPANY REGISTRATION

24.1 Information and details may be obtained from the Department of Company Affairs, Shastri Bhavan, New Delhi-110011 or the Registrar of Companies located in all State capitals.

25. GRIEVANCES AND COMPLAINTS

25.1 Business Ombudsperson

To facilitate expeditious redressal of grievances and attend to complaints relating to delays in grant and implementation of industrial approvals and facilitate their disposal, the Government has appointed a BUSINESS OMBUDSPERSON in the Ministry of Commerce and Industry. , Additional Secretary & Financial Adviser, Ministry of Commerce and Industry, Udyog Bhavan, New Delhi-110011 has been nominated to act as Business Ombudsperson.

25.2 Grievances Officer & Joint Secretary

Grievances and complaints are also received by the Grievances Office-cum-Joint Secretary, Department of Industrial Policy and Promotion, Ministry of Commerce & Industry, Udyog Bhavan, New Delhi-110011, either through post or through the mail box in the EAU of the SIA and at Reception of the Ministry of Commerce & Industry at Gate No.13 of Udyog Bhavan, New Delhi-110011. Any such communication is handled expeditiously and steps are taken to redress the grievance.

26. CITIZENS CHARTER

26.1 The Department of Industrial Policy and Promotion has also got its own Citizens Charter which outlines general procedures and standards of performance expected from the Department.

REFERENCES

UNIDO/IBIS, www.unido.com

TIDCO, www.tidco.com

UNCTAD, *World Investment Report*, 1999, 2000, 2001

Various newspaper articles in The Hindu, The Financial Times, and the Hindustan Times