



Exploring Investment Opportunities in India

Comparison of Investment regime in India & Pakistan



SAARC Chamber of Commerce & Industry

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Compiled by:

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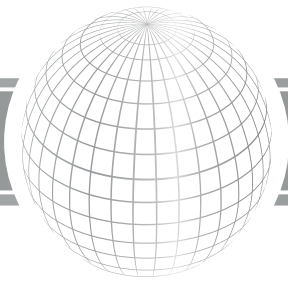
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2012

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About this Publication

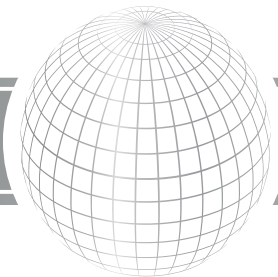
The recent development in the relationship between India and Pakistan and allowing investment by Government of India for Pakistani enterprises/companies to invest in India remain two basic reasons, which inspired us to compile this booklet.

The main objective of the publication is to inform and educate individuals/enterprises/companies of the Bangladesh and Pakistan about the investment regime in India and provide them snapshots on 22 leading sectors of Indian economy, which have great potential for investment. The publication mainly focuses on investment potential of India. Only two chapters have also been added in context of investment regime in Pakistan so that Indian enterprises and companies could also have some idea about potential sectors and investment regime in Pakistan.

The publication is equally useful for Bangladeshi individuals and enterprises, which have also been allowed for investment in India as well as countries of the South Asian region.

The publication presents the scope of cooperation in identifies sectors and provides important information about incentives, taxation structure and investment policies of the Government of India and at the end a brief analysis of Investment policies in India and Pakistan has been given, which reveals that irrespective of the nature of incentives offered for investment, business climate and overall country's position determines the inflow and outflow of the investment.

(Muhammad Iqbal Tabish)
Secretary General
SAARC Chamber of Commerce & Industry



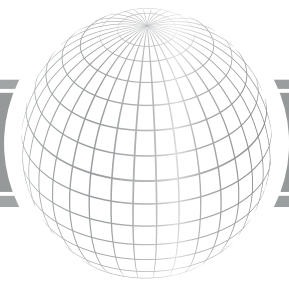
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Thanks to the rapid development in information and communication technology, we were able to collect information from various sources particularly the Government departments in India and Pakistan, which have been referred as sources of information.

Acknowledgement is due particularly to Federation of Indian Chambers of Commerce & Industry, Federation of Pakistan Chambers of Commerce & Industry, academic journals, magazines, official websites of various ministries and departments relating to identified sectors and in particular India investment Guide, CPIC, TDAP, BOI and other institutions.

Contribution of our core team at SAARC Chamber's Secretariat including Mr. Zulfiqar Ali Butt, DSG, Ms. Ms. Nafeesa Hashmi, JS, Mr. Bader Muneer and particularly the guidance of Mr. Zubair Ahmed Malik, former EC Member of SAARC CCI is acknowledged as a timely assistance for completion of this Publication.

Last but not the least, our heartfelt gratitude goes to Freidrich Naumann Stiftung: fur die freiheit, regional directorate at New Delhi India for their support in bringing out this publication.



FOREWORDS

As the proponent of free trade in South Asia, the SAARC Chamber of Commerce appreciates the role of the Government of India, Pakistan and Bangladesh in breaking the inertia and fostering economic cooperation particularly during last three years. A visible and positive shift in the policies of the Governments of India and Pakistan is greatly appreciated which led to materializing the much awaited MFN status to India.

As the 4th largest economy based on purchasing power parity and centrally located in South Asia, India provides a market of more than 1.25 billion people with emerging sound middle class, leading to the broadening of industrial and commercial scope of the country.

After allowing investment from Bangladesh and Pakistan, India now is open for investment from every country of the World. Like intra-regional trade in SAARC, intra-investment is also insignificantly less than 5% of the total FDI inflow the region.

We the business community of South Asia are certain that investment in India from Pakistan and Bangladesh would help deepening economic cooperation amongst them and leads towards stronger regional integration of South Asia.

The objective of this publication is mainly to share the information with individuals and enterprises of South Asian countries about Investment potential and opportunities in India and I am quite certain that interested individuals and companies from South Asian countries would be greatly benefitted from the information provided in this publication.

(Vikramjit Singh Sahney)
President
SAARC Chamber of Commerce & Industry

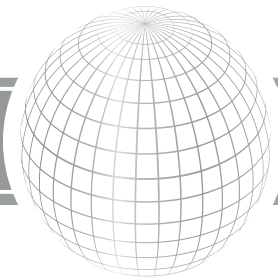


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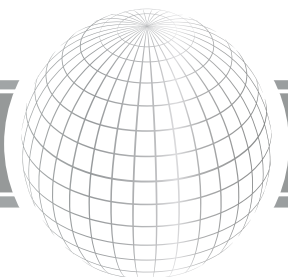
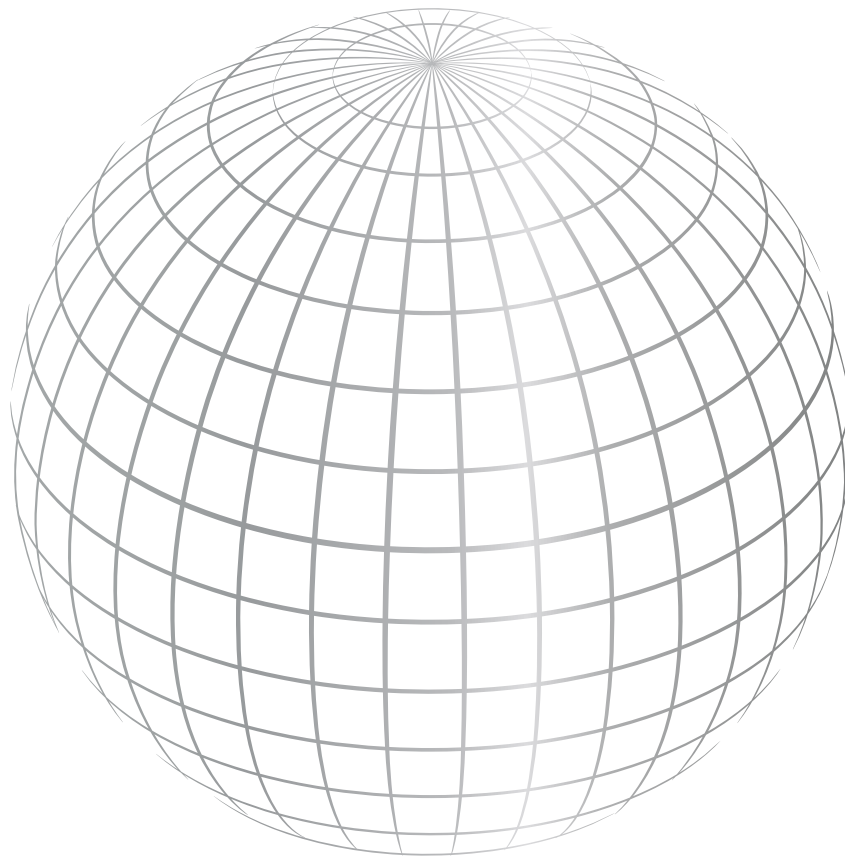


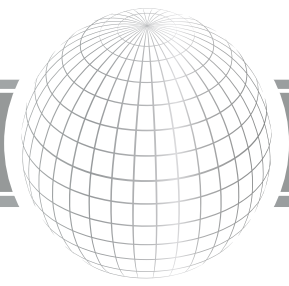
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CHAPTER 1



India Country Overview



People and Government of India

India is one of the oldest civilizations in the world with great diversities and rich cultural heritage.

With a total area of 32,87,263sq. Km it is the 7th largest country in the world. The Great Himalayas at the north, the Indian Ocean at the south, India lies between the Bay of Bengal on the east and the Arabian Sea on the west and has a land frontier of about 15,200 km. The Tropic of Cancer cuts through the Country.

Population of India according to the latest census in 2011 is approximately 1.21 billion, making it the 2nd most populous country in the world after China. By 2030, the population of India is estimated to be the largest in the world to touch around 1.53 billion.

India, a union of states, is a sovereign, secular, democratic Republic with a parliamentary system of Government. There are 28 States and seven Union territories in the country. From the largest to the smallest, each State/Union Territory of India has a unique demography, history and culture, dress, festivals, language etc.

CULTURE

Regarded by some historians as the "oldest living civilization on Earth", the Indian tradition dates back to 8000 BC and has a continuous recorded history since the time of Vedas for over 5,000 years. Several elements of India's diverse culture __such as Indian religions, music, yoga and Indian cuisine have had a profound impact across the world.

RELIGION

Indians are known to be following diverse religions and one of the most intriguing places where so many religions coexist, also being the birth place of Hinduism, Buddhism, Jainism and Sikhism, collectively known as Indian religions.

Today, Hinduism and Buddhism are the world's 3rd and 4th largest religions respectively, with over 2 billion followers a put together.

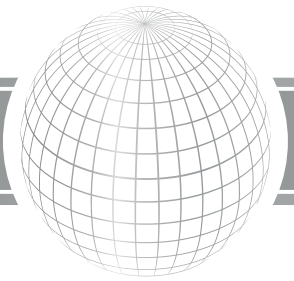
About 80% of the people of India follow Hinduism, while Islam is practiced by around 13%, and the rest are made up of Sikhs, Buddhists, Christians, Zoroastrians and others in smaller numbers.

PEOPLE & LIFESTYLE

However, with its diversity of religion, culture, and languages India is more of a subcontinent rather than a mere uniform country. The regional preservation of this diversity of an ' Incredible India" is the major determinant of social and political environment in the country today. Ethnically Indians speak different Languages, follow different religions, and eat the most diverse varieties of food all of which add to the rich Indian culture. The brilliance of the Indian people lies in the spirit of tolerance, compassion, acceptability, and a composition of cultures that can be compared to a garden of flowers of various hues and shades, which, while maintaining their own individual entity, lend harmony and beauty to the whole garden – India!

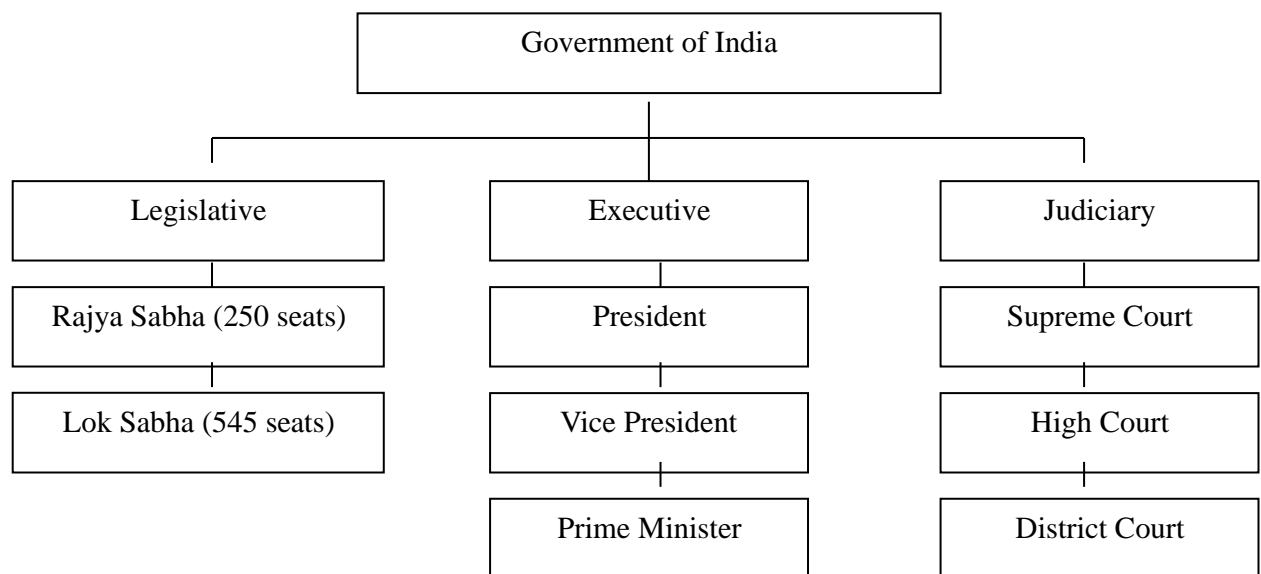
LANGUAGES

Although more than 22 local languages and dialects are recognized by the Indian Constitution, Hindi is the national language, and it is the most widely understood, thanks to the plethora of Hindi films that are churned out of the studios of "Bollywood". However, English is the common language among the educated populace, and remains the primary



lingua franca of the business community and in the law courts of India. Sanskrit and Tamil share a long history of more than 5,000 and 3,000 years respectively and there are hundreds of thousands of dialects that add to the radiance of the country. The population of people speaking each language varies drastically

INDIA GOVERNMENT



Executive

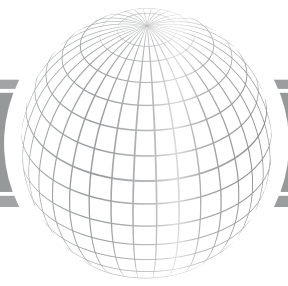
The Union Executive consists of the President, the vice-President and council of Ministers with the Prime Minister at the head to aid and advice themselves President.

Legislature

The Legislative Arm of the union, called parliament, consists of the President, Rajya Sabha and lok Sabha. All legislation requires consents of both Houses of parliament.

Lok Sabha (Lower House)

The Lok Sabha is composed of representatives of the people chosen by direct election on the basis of universal adults suffrage. As of today, Lok Sabha consists of 545 members and the term of the Lok Sabha is 5 years. The Constitution of India came into force on January 26, 1950. The first general elections under the new Constitutions were held during the year 1951 – 1952 and the first elected parliament came into being in April, 1952 and the Fifteenth Lok Sabha in May, 2009.



Rajya Sabha (Upper House)

The Rajya Sabha consists of 245 members. Of these, 233 represent states and union territories and 12 members are nominated by the President. Elections to the Rajya Sabha are indirect; members are elected by the elected members of Legislative Assemblies of the concerned states. The Rajya Sabha is not subject to dissolution as one third of its members retire every second year and new members are elected.

The Vice-President of India is the ex-officio Chairman of Rajya Sabha. The House also elects a Deputy Chairman from among its members. Besides, there is also a panel of "Vice Chairmen" in the Rajya Sabha. The senior most Minister, who is a member of Rajya Sabha, is appointed by the Prime Minister as Leader of the house.

Federal & Parliamentary System

India is the world's largest democracy, and every adult citizen can exercise his or her democratic right in elections that are held at regular intervals. As like any other democracy, political parties represent different sections among the Indian society and regions. India has a multi – party system, with a number of national and regional parties. A regional party may gain a majority and rule a particular state.

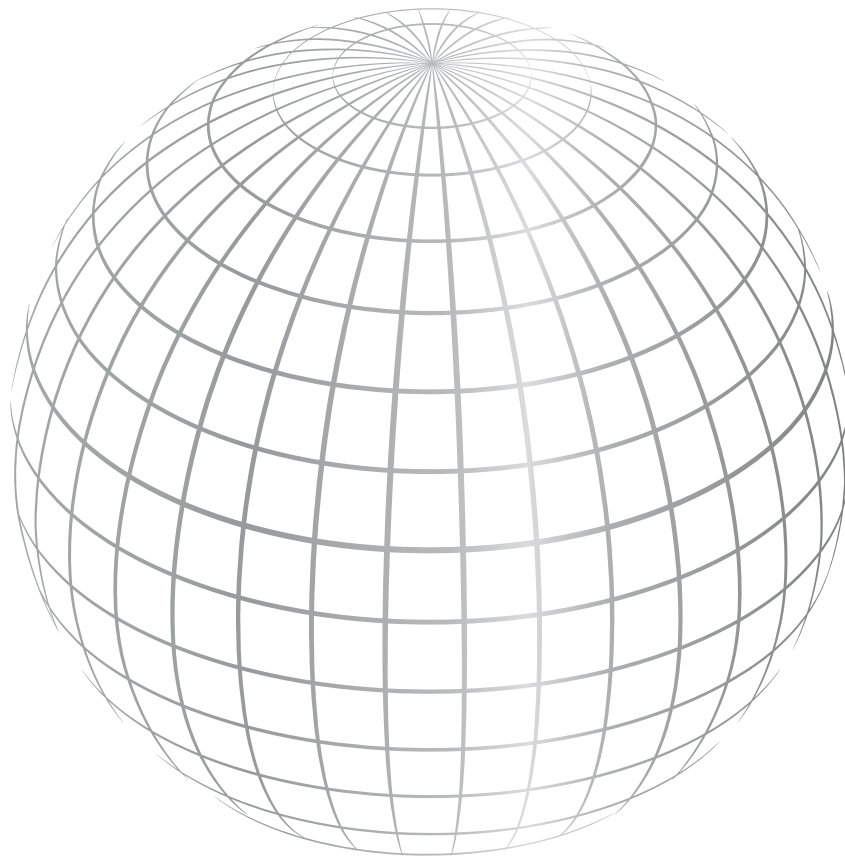
The president is the constitutional head of the executive of the Union of India. The real executive power vests in a Council of Ministers with the Prime Minister as head. The Council of Ministers is collectively responsible to the Lok Sabha, the House of the People. In the States, the Governor, as the representative of the President, is the head of Executive, but real executive power rests with the Chief Minister who heads the Council of Ministers. The Council of Ministers of a State is collectively responsible to the elected legislative assembly of the state. The constitution governs the sharing of legislative power between parliament and the State Legislatures, and provides for the vesting of residual powers in Parliament. The power to amend the Constitution also vests in parliament.

Judiciary

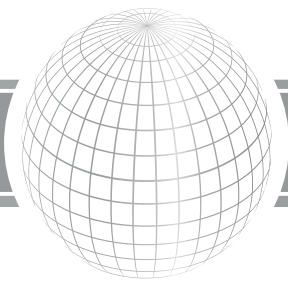
The Supreme Court is the apex court in the country. The High Court stands at the head of the state's judicial administration. Each state is divided in to judicial districts presided over by a district and session judge, who is the highest judicial authority in a district. Below him, there are courts of civil jurisdiction, known in different states as munsifs, sub-judges, civil judges and the like.

Similarly, criminal judiciary comprises chief judicial magistrate and judicial magistrates of first and second class.

CHAPTER 2



Overview of Indian Economy



ECONOMY

On the eve of the industrial revolution (around 1770), India was the 2nd largest economy in the world, and estimated to be contributing to more than 20% of total world output. By the 1970s, after 2 centuries of relative economic stagnation, that share had fallen to less than 3% which by 2010 further declined to 1.50% the lowest in its recorded history. From a long – term perspective, the post – industrial economic decline of India is a historical aberration, driven to some extent by a lack of pragmatism.

After gaining independence from the British in 1947, India's first Prime Minister, Jawaharlal Nehru, led the country's economy towards a socialistic pattern to quickly put India on a path of industrial and economic self – sufficiency.

Steel, mining, machine tools, telecommunications, banking, insurance, and power plants among other industries, were either reserved for state – investments, or existing ones were systematically nationalized. While in the initial stages with only a few large private investors in India, state – investments in the infrastructure projects, such as roads, railways, ports, airports and in heavy industries made sense, these later became “white elephants” due to inefficient or flawed handling. Consequently, the net worth of many of the state – owned projects became negative and these were a severe drain on the national exchequer.

Reforms beginning in 1991 gradually removed obstacles to economic freedom, and India has begun to climb the growth ladder, steadily re – integrating in to the global economy.

The Indian economy now is one of the fastest growing economies and is the 12th largest in terms of the market exchange rate. In terms of purchasing power parity (PPP), the Indian economy ranks the 4th largest in the world. The Indian economy has been propelled by the liberalization policies that have been instrumental in boosting demand as well as trade volume. The Gross Domestic Product (GDP) of India is estimated to have grown at 8.6 per cent in 2010 – 2011 in real terms.

In 2010, India's PPP Gross Domestic Product stood at over \$ 4 trillions, and was the 4th largest economy by volume. The services sector, backed by the IT revolution, remained the biggest contributor to the national GDP, with a contribution of 58.4%. The industry sector contributed to 24.1% and the agriculture sector contributed to 17.5% of the GDP. Other areas where India is expected to make significant progress include manufacturing , construction of ships, pharmaceuticals, aviation, biotechnology, tourism, nanotechnology, retailing and telecommunications. Growth rates in these sectors are expected to increase dramatically. India is today rated as one of the most attractive investment destinations across the globe, and is slated to be one the top 5 largest economies by 2025.

HIGHLIGHTS OF INDIA'S ECONOMIC GROWTH

Historical Perspective

Social democratic policies governed India's economy from 1947 to 1991. The economy was characterized by extensive regulation, protectionism, public ownership, pervasive corruption and slow growth. Indian economic policy after independence was influenced by the colonial experience which was seen by Indian leaders as exploitative, and by those leaders exposure to democratic socialism as well as the progress achieved by the economy of the Soviet Union. Five – Year Plans of India resembled central planning in the Soviet Union. Steel, mining, machine tools, telecommunications, insurance, and power plants, among other industries, were effectively nationalized in the mid – 1950s.

In the late 1970s, the government led by Morarji Desai eased restrictions on capacity expansion for incumbent companies; removed price controls, reduced corporate taxes and promoted the creation of small scale industries in large numbers.

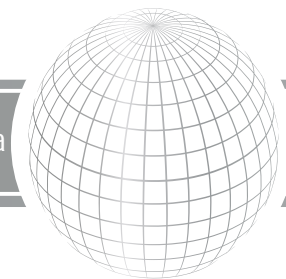


Table 2.1
Economy of the Republic of India

Snap - shot of the Economy of The Republic of India	
Rank	10th (nominal) /4th(PPP)
Currency	1 Indian Rupee (INR) () = 100 Paise
Fiscal year	Financial year(1 April - 31 March)
Trade organizations	WTO, SAFTA, G - 20 and others
Statistics	
GDP	\$ 1.53 trillion (nominal: 10th; 2010); \$4.06 trillion (PPP :4th; 2010)
GDP growth	8.2% (2010, Q3)
GDP per capita	\$ 1,265 (nominal: 138th; 2010) ; \$ 3,339 (PPP: 129th; 2010)
GDP by sector	Services (55.3%), industry (28.6%), agriculture (16.1%) (2010)
Main industries	telecommunications, textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, information technology, pharmaceuticals
External	
Exports	\$ 201 billion (20th; 2010)
Export goods	petroleum products, precious stones, machinery, iron and steel, chemicals, vehicles, apparel
Main export partners	UAE 12.87%, US 12.59%, China 5.59% (2009)
Imports	\$ 327 billion (11th; 2010)
Import goods	crude oil, precious stones, machinery, fertilizer, iron and steel, chemicals
Main import partners	China 10.94%, US 7.16%, Saudi Arabia 5.36%, UAE 5.18%, Australia 5.02%, Germany 4.86%, Singapore 4.02% (2009)
FDI stock	\$ 35.6 billion (2009 - 2010)
Gross external debt	\$ 237.1 billion (2010 est.)
All values, unless otherwise stated, are in US dollars	

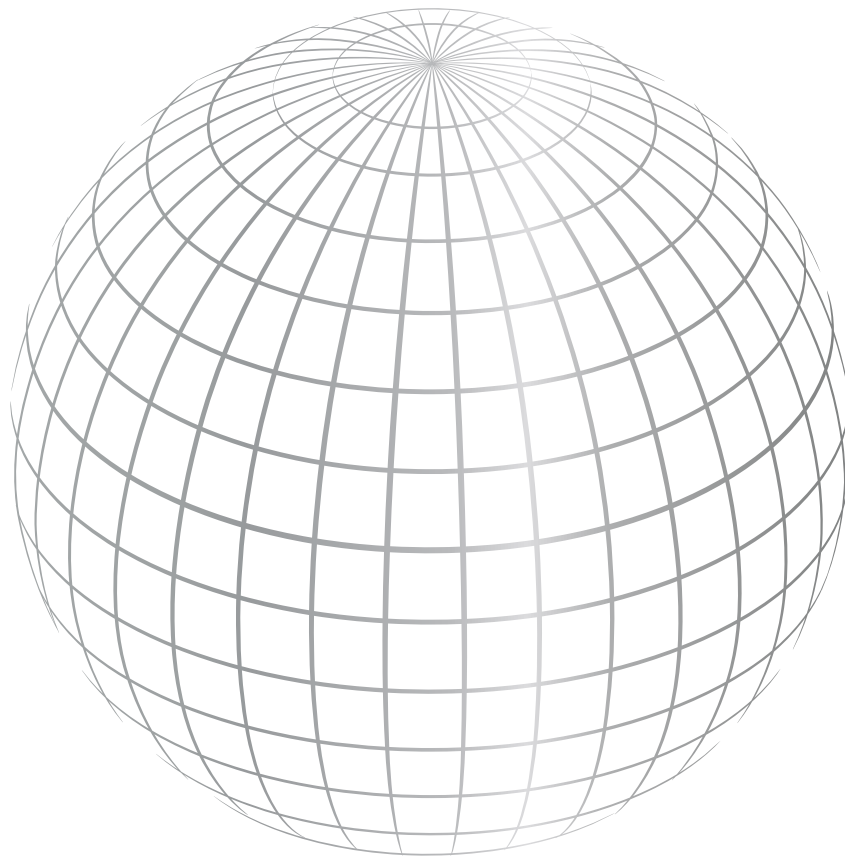
However, the subsequent government policy of Fabian socialism hampered the benefits of the economy, leading to high fiscal deficits and a worsening current account. The collapse of the Soviet Union, which was India's major trading partner, and the Gulf War, which caused a spike in oil prices, resulted in a major balance – of – payments crisis for India, which found itself facing the prospect of defaulting on its loans. India asked for a \$ 1.8 billion bailout loan from the International Monetary Fund (IMF), which in return demanded economic reforms.

Economic Reforms

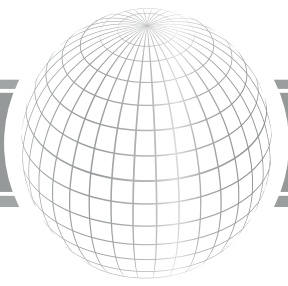
Prime Minister Narasimha Rao, along with his then finance minister Manmohan Singh, initiated the economic liberalization of 1991. The reforms did away with the License Raj, reduced tariffs and interest rates and ended many public monopolies, allowing automatic approval of Foreign Direct Investment in many sectors.

Since 1991, continuing economic liberalization has moved the country towards a market – based economy. A revived of economic reforms and better economic policy in the first decade of the 21st century accelerated India's economic growth rate. This has been accompanied by increases in life expectancy, literacy rates and food security, although the beneficiaries have largely been urban residents. In recent years India had established itself as the world's second – fastest growing major economy.

CHAPTER 3



Foreign Direct Investment in India



Overview of FDI

While the credit rating of India was hit by its weapon tests in 1998, it has since been raised to investment level in 2003 by S&P and Moody's. In 2003, Goldman Sachs predicted that India's GDP at current price would overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035, making it the 3rd largest economy of the world, behind the US and China.

India is often seen by most economists as a rising economic superpower and is believed to play a major role in the global economy in the 21st century.

As the fourth – largest economy in the world in PPP terms, India is a preferred destination for FDI. India has strength in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewellery besides its need of massive infrastructure development. However, due to positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned itself as one of the front – runners of the rapidly growing Asia – Pacific region. India has a large pool of skilled managerial and technical expertise. The size of the middle class population stands at 300 million and represents a growing consumer market.

During 2000 – 2010, the country attracted \$ 168 billion as FDI including reinvested earning and others. The inordinately high investment from Mauritius as per Annexure II is due to routing of international funds through that country gives the significant tax advantages; double taxation is avoided due to a tax treaty between India and Mauritius, and Mauritius is a capital gains tax haven, effectively creating a zero – taxation FDI channel.

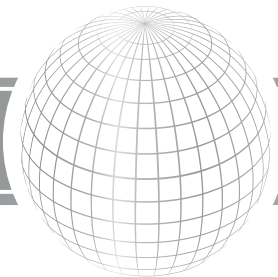
India's recently liberalized FDI policy (2005) allows up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment FDI. The upward moving growth curve of the real – estate sector owes some credit to a booming economy and liberalized FDI regime. In March 2005, the government amended the rules to allow 100% FDI in the construction sector, including built – up infrastructure and construction development projects comprising housing, commercial premises, hospitals, educational institutions, recreational facilities, and city – and regional level infrastructure. Despite a number of changes in the FDI policy to remove caps in most sectors, there still remains an unfinished agenda of permitting greater FDI in politically sensitive areas such as insurance and retailing.

INDIA: AN ATTRACTIVE DESTINATION FOR FOREIGN DIRECT INVESTMENTS

The United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2008 has stated India as the 2nd most – preferred global destination for foreign investment. Foreign direct investment (FDI) inflows into the country will continue to show the robustness seen in the past couple of years despite the global financial crisis that many feel has impacted economies across the world.

Among the main reasons for India's attractiveness as an FDI destination, cited by these reports, are the following;

- A stable, democratic government that largely ensures continuity of Investment Policies that has been improving every year with WTO compliance.
- Apparent transparency on Repatriation of Profits & Royalties under well administered regulations of the Reserve Bank of India (RBI) and the Govt. of India (Gol)
- The Gol's Foreign investment Promotion Board (FIPB) now provides ample guidance and a single – window clearance scheme for most FDI proposals.
- Various Tax – breaks and other funding assistance are available through Gol's financial institutions for FDI proposals in important industrial and infrastructure projects.



India has a large pool of well – trained, English – speaking engineers and managers, who can be utilized for new FDI projects, without incurring high wage costs, etc.

FACTUAL DATA ON INDIA AS A GOOD FDI DESTINATION

Factual Data have been tabulated below. Table 3.2 indicates the flow of FDI from 1991 – 2000 and 2000 – 2010 ----- while the decade of 1991 – 2000 attracted investments worth merely US \$ bln, the total investments in 2008 – 2009 alone was US \$ 27.3 bln.

Table 3.1
FDI INFLOWS FINANCIAL YEAR - WISE DATA:
FINANCIAL YEAR - WISE DIPP' S FDI EQUITY INFLOWS

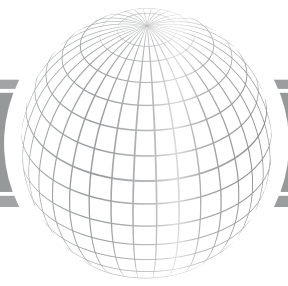
(Equity capital components only):
From AUGUST 1991 to MARCH 2010

S. No.	S. No. Financial Year (April - March)	Amount of FDI Inflows (Including advance)		Amount of FDI Inflows (excluding advance)		% age growth on previous Year
		In Rupees crores	In US \$ Million	In Rupees crores	In US \$ Million	
(A)	1991 - 2000					
		60,604	16,698	59,698	16,484	
	2000 - 2010 (April 00 – March '10)					
1	2000 - 2001	12,646	2,908	10,733	2,463	
2	2001 - 2002	19,361	4,222	18,654	4,065	(+) 65 %
3	2002 - 2003	14,932	3,134	12,955	2,722	(-) 33 %
4	2003 - 2004	12,117	2,634	10,237	2,225	(-) 18 %
5	2004 - 2005	17,138	3,759	14,653	3,219	(+) 45 %
6	2005 - 2006	24,613	5,546	24,613	5,546	(+) 72 %
7	2006 - 2007 *	70,630	15,726	70,630	15,726	(+) 184 %
8	2007 - 2008 *	98,664	24,581	98,664	24,579	(+) 56 %
9	2008 - 2009 *	1,23,025	27,331	1,22,919	27,309	(+) 11 %
10	2009 - 2010	1,09,925	22,963	1,09,925	22,963	-
(B)	Sub. Total (1 to 10 above)	5,03,051	1,12,804	4,93,983	1,10,817	-
	CUMULATIVE TOTAL (A) + (B)	5,63,655	1,29,502	5,53,681	1,27,301	-

Note:

(i) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEAP), Mumbai.

(ii) Includes Stock Swap of Shares US \$ 3.2 billion for the year 2006 – 2007 & US \$ 5.0 BILUON FOR THE YEAR 2007 - 2008.

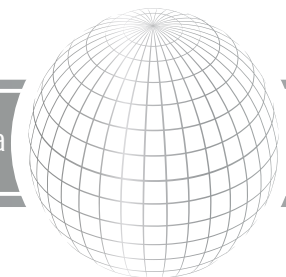


(iii) Variation in equity inflows reported in above Table II for 2006 - 2007 is due to difference in reporting of inflows through Stock Swap by RBI in the monthly report to DIPP & monthly RBI bulletin.

Table 3.3 provides an analysis of country wise FDI inflows into India. The analysis indicates that 81% of cumulative FDI is contributed by ten countries while the remaining 19% by the rest of the world India's perception abroad has been changing steadily over the years. This is reflected in the ever growing list of countries that are showing interest to invest in India. Mauritius emerged as the most dominant source of FDI contributing 43% of the total investment in the country. Singapore was the second dominant source of FDI inflows with 9% of the total inflows. However, USA slipped to third position by contributing 8% of the total inflows. UK occupied fourth position with 5% followed by Netherlands with 4%, Cyprus with 4%, Japan with 3%, Germany with 3%, France and UAE with 1% each. It has been observed that some of the countries like Israel, Thailand, Hong Kong, South Africa and Oman increased their share gradually during the period under study. It is also interesting to note that some of the new countries such as Hungary, Nepal, Virgin Islands, and Yemen are making significant investment in India.

Table 3.2
STATEMENT ON COUNTRY - WISE FDI INFLOWS
INTO INDIA FROM APRIL 2000 TO MARCH 2010

S. No.	Country	Amount of Foreign Direct Investment Inflows		% age to total FDI Inflows
		(In Rs)	(In US \$)	
1	MAURITIUS	2,067,574.68	46,335.04	43.19
2	SINGAPORE	426,001.03	9,639.70	8.90
3	U. S. A.	365,415.07	8,137.39	7.63
4	U. K.	252,121.28	5,712.18	5.27
5	NETHERLANDS	196,938.86	4,392.64	4.11
6	CYPRUS	168,453.34	3,694.61	3.52
7	JAPAN	167,066.20	3,673.35	3.49
8	GERMANY	121,969.07	2,739.71	2.55
9	U.A.E.	68,957.06	1,521.54	1.44
10	FRANCE	67,703.02	1,497.79	1.41
11	SWITZERLAND	41,414.44	926.29	0.87
12	ITALY	34,710.33	797.22	0.73
13	SWEDEN	34,286.50	755.01	0.72
14	CAYMAN ISLAND	30,231.37	724.69	0.63
15	INDONESIA	27,872.61	602.87	0.58
16	KOREA (SOUTH)	25,686.69	577.62	0.54
17	SPAIN	24,461.70	558.75	0.51
18	BRITISH VIRGINIA	23,453.44	529.75	0.49
19	HONGKONG	22,555.57	505.57	0.47
20	BERMUDA	22,375.61	498.85	0.47
21	RUSSIA	17,854.63	371.74	0.37
22	BELGIUM	14,360.52	317.32	0.30
23	AUSTRALIA	13,047.15	289.77	0.27
24	CANADA	12,863.63	290.55	0.27
25	MALAYSIA	11,590.73	251.99	0.24



26	FINLAND	7,439.89	156.34	0.16
27	DENMARK	6,624.19	147.16	0.14
28	LUXEMBOURG	6,475.72	144.65	0.14
29	SOUTH AFRICA	4,837.52	105.08	0.10
30	IRELAND	4,458.54	102.89	0.09
31	AUSTRIA	3,541.86	78.37	0.07
32	WEST INDIES	3,079.07	69.63	0.06
33	THAILAND	2,968.68	66.85	0.06
34	CHILE	2,836.58	59.91	0.06
35	OMAN	2,737.89	64.00	0.06
36	CHINA	2,496.66	52.01	0.05
37	ISRAEL	2,280.91	51.69	0.05
38	OTHERS	7,21,766.75	16,362.51	9.99
Grand Total		5,030,508.79	112,803.03	100

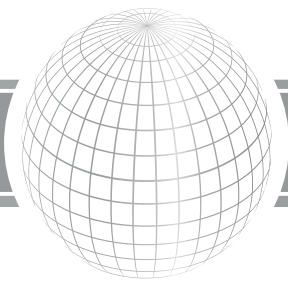
Source: CMIE / IMRB Database on India FDI Flows (2008 - '10)

Note: * Percentage of inflows worked out in terms of rupees & the above amount of inflows received through FIPB/SIA route, RBI's automatic route & acquisition of existing shares only.

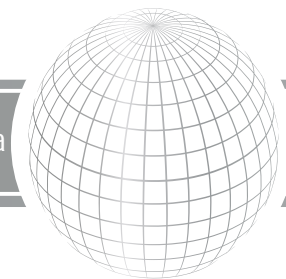
The Sector wise Analysis of FDI Inflow in India as shown in Table 3.4 reveals that maximum FDI has take place in the services sector including the telecommunication, information technology, tourism sub – sectors among others, followed by computer hardware & software. Sectors like real estate, construction, power, automobiles, etc. also attracted significant FDI. Data on Foreign Technology Transfer Country wise, Sector wise, and state wise is provided in Table 3.5. Five Countries alone take the major share, whereas the Electrical equipment, chemicals and industrial machinery sectors are the major beneficiary. Maharashtra and Gujarat States in west, Tamil Nadu and Karnataka States in South were the largest recipients.

Table 3.3
STATEMENT ON SECTOR - WISE FDI INFLOWS
FROM APRIL 2000 TO MARCH 2010

S. No	Sector	Amount of FDI Inflows		S. No Sector Amount of FDI Inflows% age to total FDI Inflows
		(In Rs)	(In US \$)	
1	SERVICES SECTOR	10,30,413.29	23,125.14	21.52
2	COMPUTER SOFIWARE & HARDWARE	4,27,275.26	9,630.23	8.92
3	TELECOMMUNICATIONS	4,02,818.67	8,838.07	8.41
4	HOUSING & REAL ESTATE (INCLUDING CINEPLEX, MULTIPLEX, INTEGRATED TOWN SHIPS, etc)	3,64,761.72	8,161.31	7.62
5	CONSTRUCTION ACTIVITIES	3,31,712.71	7,507.44	6.93
6	POWER	2,03,861.38	4,510.45	4.26
7	AUTOMOBILE INDUSTRY	1,98,844.74	4,390.98	4.15
8	METALLURGICAL INDUSTRIES	1,31,815.71	3,073.45	2.75
9	PETROLEUM & NATURAL GAS	1,12,784.61	2,615.87	2.36
10	CHEMICALS (OTHER THAN FERTIUZERS)	1,09,318.82	2,421.55	2.28
11	ELECTRICAL EQUIPMENTS	95,990.16	2,124.83	2.01
12	TRADING	88,275.37	2,019.19	1.84



13	HOTEL & TOURISM	84,211.01	1,876.65	1.76
14	INFORMATION & BROADCASTING (INCLUDING PRINT MEDIA)	80,045.03	1,771.90	1.67
15	CEMENT AND GYPSUM PRODUCTS	74,952.16	1,706.26	1.57
16	DRUGS & PHARMACEUTICALS	73,553.86	1,656.24	1.54
17	AGRICULTURE SERVICES	71,355.45	1,496.76	1.49
18	CONSULTANCY SERVICES	69,434.27	1,544.37	1.45
19	PORTS	66,675.18	1,624.16	1.39
20	FOOD PROCESSING INDUSTRIES	46,595.36	1,018.97	0.97
21	TEXTILES (INCLUDING DYED, PRINTED)	36,694.67	815.48	0.77
22	ELECTRONICS	35,691.68	785.75	0.75
23	MISCELLANEOUS MECHANICAL & ENGINEERING INDUSTRIES	35,248.18	792.18	0.74
24	FERMENTATION INDUSTRIES	33,003.16	767.72	0.69
25	HOSPITAL & DIAGNOSTIC CENTRES	32,769.96	761.18	0.68
26	SEA TRANSPORT	31,332.49	691.46	0.65
27	MINING	30,216.51	711.5	0.63
28	NON - CONVENTIONAL ENERGY	29,152.64	634.17	0.61
29	INDUSTRIAL MACHINERY	23,033.36	511.84	0.48
30	PAPER AND PULP (INCLUDING PAPER PRODUCTS)	18,939.40	435.8	0.4
31	CERAMICS	17,787.24	416.85	0.37
32	EDUCATION	17,208.84	368.91	0.36
33	MACHINE TOOLS	17,020.58	374.42	0.36
34	MEDICAL AND SURGICAL AP- PLIANCES	15,227.17	328.16	0.32
35	RUBBER GOODS	13,179.79	284.51	0.28
36	DIAMOND, GOLD ORNAMENTS	12,255.96	274.19	0.26
37	AIR TRANSPORT (INCLUDING AIR FREIGHT)	10,093.71	229.17	0.21
38	COMMERCIAL, OFFICE & HOUSEHOLD EQUIPMENTS	9,598.45	213.35	0.2
39	PRINTING OF BOOKS (INCLUDING LITHO PRINTING INDUSTRY)	9,295.71	203.07	0.19
40	RETAIL TRADING (SINGLE BRAND)	8,707.97	187.96	0.18
41	SOAPS, COSMETICS & TOILET PREPARATIONS	6,819.16	152.07	0.14
42	AGRICULTURAL MACHINERY	6,693.38	149.31	0.14
43	GLASS	6,231.15	137.76	0.13
44	VEGETABLE OILS AND VANASPATI	6,056.34	129.82	0.13
45	EARTH - MOVING MACHINERY	5,756.24	134.37	0.12
46	FERTILIZERS	4,866.99	108.8	0.1
47	RAILWAY RELATED COMPONENTS	4,470.58	100.41	0.09
48	TEA AND COFFEE (PROCESSING & WAREHOUSING COFFEE & TEA)	4,000.39	89.14	0.08



49	PHOTOGRAPHIC RAW FILM AND PAPER	2,580.20	63.9	0.05
50	SUGAR	1,841.47	41.68	0.04
51	LEATHER, LEATHER GOODS AND PICKERS	1,833.20	41.14	0.04
52	INDUSTRIAL INSTRUMENTS	1,736.85	37.07	0.04
53	TIMBER PRODUCTS	878.67	18.2	0.02
54	COAL PRODUCTION	624.8	15.64	0.01
55	DYE - STUFFS	601.74	13.54	0.01
56	SCIENTIFIC INSTRUMENTS	511.44	11.64	0.01
57	BOILERS AND STEAM GENERATING PLANTS	423.46	9.35	0.01
58	GLUE AND GELATIN	398.44	8.71	0.01
59	PRIME MOVER(OTHER THAN ELECTRICAL GENERATORS)	178.3	3.72	0
60	COIR	62.09	1.37	0
61	MATHEMATICAL, SURVEYING AND DRAWING INSTRUMENTS	50.45	1.27	0
62	DEFENCE INDUSTRIES	6.87	0.15	0
63	MISCELLANEOUS INDUSTRIES	2,29,734.11	5,193.45	4.81
	Sub Total	7,87,508.54	1,07,364.00	100
64	STOCK SWAPPED	1,48,047.68	3,354.85	-
65	ADVANCE OF INFLOW	89,622.22	1,962.82	-
66	NRI – RBI SCHEMES	5,330.60	121.33	-
	Grand Total	50,30,509.04	1,12,803.00	-

Source: CMIE / IMRB Database on India FDI Flows (2008 - '10)

Note:

- (i) Sector - wise FDI inflows data re - classified, as per segregation of data from April 2000 onwards.
- (ii) Percentage of inflows worked out in rupees as received through FIPB/SIA route & acquisition of existing shares.

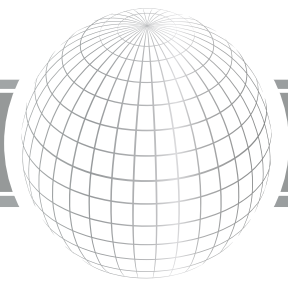


Table 3.4
Foreign technology transfer (ftt)
(from August 1991 to March 2010)

A. COUNTRY – WISE FOREIGN TECHNOLOGY TRANSFER APPROVALS:

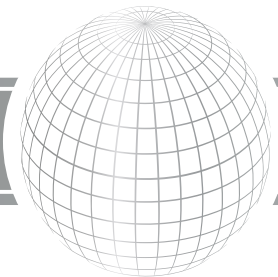
Ranks	Country	No. of Technical Collaborations approved	%age with total tech. approvals
1	U.S.A	1841	22.71
2	Germany	1116	13.77
3	Japan	880	10.86
4	U.K.	876	10.81
5	Italy	489	6.03
6	Other Countries	2904	35.82
Total of all Country		8106	100.00

B. SECTORS – WISE FOREIGN TECHNOLOGY TRANSFER APPROVALS:

Ranks	Sector	No. of Technical Collaborations approved	%age with total tech. approvals
1	Electrical Equipments (including computer software & electronics)	1263	15.58
2	Chemicals (other than fertilizer)	905	11.16
3	Industrial Machinery	872	10.76
4	Transportation Industry	760	9.38
5	Misc. Mach. Engineering Industry	444	5.48
6	Other Sectors	3862	47.64
Total of all Sectors		8106	100.00

C. STATE – WISE FOREIGN TECHNOLOGY TRANSFER APPROVALS:

Ranks	State	No. of Technical Collaborations approved	%age with total tech. approvals
1	Maharashtra	1397	17.23
2	Tamil Nadu	683	8.43
3	Gujrat	634	7.82
4	Karnataka	529	6.53
5	Haryana	369	4.55
6	Other States	4494	55.44
Total of all States		8106	100.00



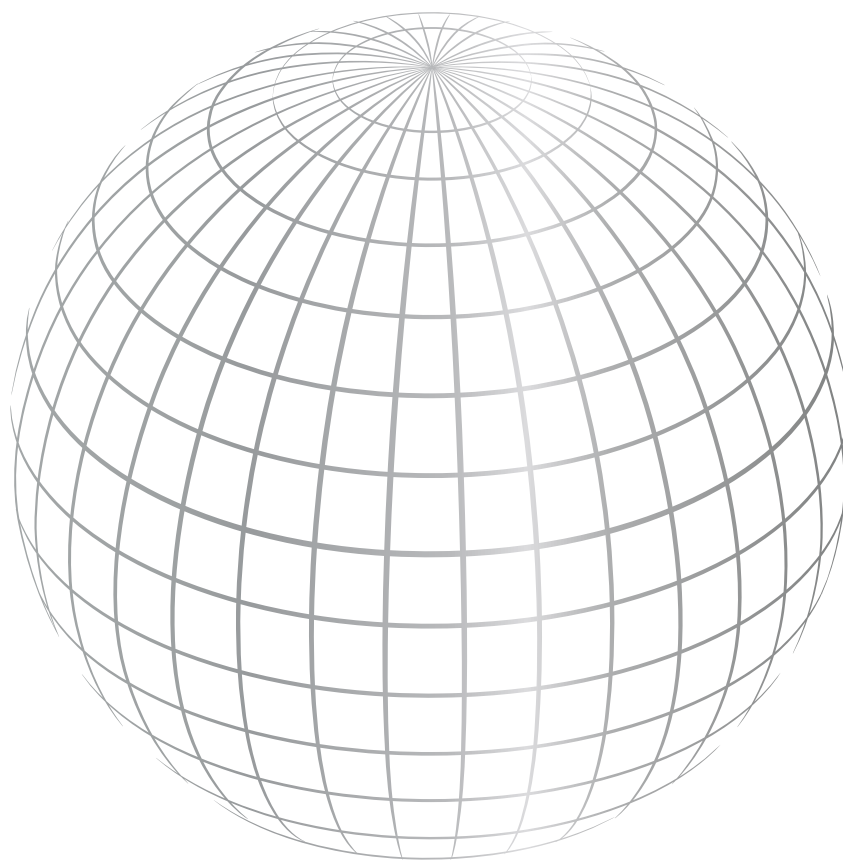
Note:

Sources of most of the above tabular information are the CMIE & IMRB databases compiled from piecemeal data obtained from RBI, FIPB / SIA, etc.

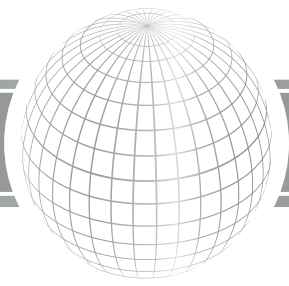
The rapid development of the telecommunication sector was due to FDI inflows in the form international players entering the market and transfer of advanced technologies. Since the telecom industry is one of the fastest growing industries in India with a growth rate of around 45%, it has the highest growth rate in the world. FDI inflows to real estate sector in India have helped develop, expand and grow the sector. India has become one of the prime destinations in terms of construction activities as well as real estate investment leading to a phenomenal growth in the economic life of the country. The FDI in Automobile Industry has also experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The increased FDI Inflows to Metallurgical Industries in India have helped to bring in the latest technology to the industry, leading to its development, expansion, and growth. The increased flow of foreign direct investment in the chemicals industry in India has helped in the development, expansion, and growth of the industry which has led to the improvement of the quality of the products from the industry.

The cumulative FDI inflows from the above results reveals that service sector in India attracted the maximum FDI inflows amounting to over US \$ 23.12 billion, followed by Computer Software and Hardware amounting to US \$ 9.6 billion. These two sectors collectively attracted more than 30% of the total FDI in flows in India. The housing and real estate sector and the construction industry are among the new sectors attracting huge FDI inflows and come under top ten sectors attracting maximum FDI inflows.

CHAPTER 4



Leading manufacturing and Services Sectors
Performance and investment Opportunities



1. AGRICULTURE

Overview

Agriculture is an important sector of the India economy and accounts for almost 19% of India gross domestic products (GDP). Agriculture is the main stay of the Indian economy as it forms the backbone of rural India, which constitutes more than 70% of total Indian population.

Agriculture sector is vital for the food and nutritional security of the nation. The sector remains the principal source of livelihood for more than 58% of the population though its contribution to the national GDP has declined due to high growth experienced in industries and service sectors. Compared to other countries, India faces greater challenges, since with only 2.3% share in world's total land area, it has to ensure food security of its population which is about 17.5% of world population. This leads to excessive pressure on land and fragmentation of land holdings. Against the backdrop of the burgeoning population's demands for food grain, degrading natural resource base, emerging concerns of climate change and other challenges, the department of Agriculture and Cooperation (DAC) has focused on mobilizing higher investment in agriculture, bridging yield gaps that exist across the states/ regions, timely and adequate supply of quality inputs, and providing adequate support services to the farmers to make agriculture a remunerative vocation on a sustainable basis. Increasing agricultural production with limited natural resources in a sustainable manner for ensuring food and nutritional security and providing income security to farmers are the major challenges before the Government.

The Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Planning Commission of India are the main governing bodies that define the future role of agriculture in India and it aims at developing agricultural sector of India.

Foreign Direct Investment (FDI)

The FDI Inflows to agriculture services are allowed up to 100% through the automatic route covering horticulture, floriculture, development and production of seeds and planting material, animal husbandry, pisciculture, aquaculture, cultivation of vegetables, mushroom and services related to agro and allied sectors, subject to certain conditions. Besides the above, No FDI / NRI/OCB is allowed in any other Indian Agriculture sector. In Tea sector including tea plantation, 100% FDI is allowed under Government route. Further, it requires compulsory divestment of 26% equity in favour of the Indian partner or Indian public within a maximum period of five years and prior approval of the State Government in case of any future land use change.

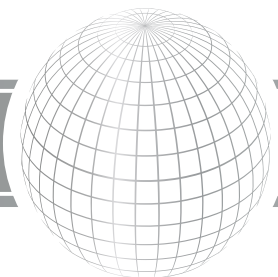
2. AUTOMOTIVE

Overview

The automotive sector, comprising the automobile and auto component sectors, is one of the key segments of the economy having vertical and horizontal integration with other key segments of the economy, a multiplier effect on the economy and plays a pivotal role in the economic and industrial development of the nation. During 2009, India was the second fastest growing automobile market in the world.

India continues to consolidate its position on the global front being one of the world's top 10 auto – producing countries. Currently, the auto industry employs about 12.5 million people both directly and indirectly, contributes nearly 5% to the country's GDP and contributes nearly 20% of indirect taxes to the Government.

According to a study by global consultancy firm Ernst & Young, the Indian market will clock the fastest compound



annual growth rate between 2009 and 2020, more than double that of China and the triad of North America, Europe and Japan.

Government Policies & Reforms

Post liberalisation in 1991, Indian automobile sector has been aptly described as the sunrise sector. The New Industrial Policy of 1991 de – licensed the Automobile Industry in India, but passenger car was de – licensed in 1993. Now, no license is required for setting up of any unit for manufacture of Automobiles except in some special cases.

In the Exim Policy, removal of Quantitative Restrictions (QRs) from April 1, 2001 has allowed the import of vehicle, including passenger car segment freely subject to certain conditions notified by DGFT, the custom duty on the import of second hand vehicles including passenger cars has been raised to 105% and the custom duty rate on new Completely Built Units (CBUs) has also been increased to a level of 60% to allow Indian countries to a fully competitive environment.

The automobile industry's Automotive Mission Plan is a 10 year blueprint courtesy of the Indian government, made in 2006, and is aimed at making the country an automobile hub, raising the industry's GDP contribution to 10% from the existing 5%, and providing surplus employment opportunities for about 25 million people.

Between the year 2006 – 2016 growth in the sector targets to :

- Increase turnover to US \$ 122 billion – US \$ 159 billion by 2016 from US \$ 34 billion in 2006
- Increase export revenue to US \$ 35 billion by 2016
- Provide employment to additional 25 million people by 2016

Foreign Direct Investment (FDI)

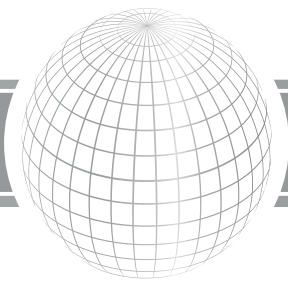
FDI Inflows to automobile Industry have been increasing gradually as India has witnessed a major economic liberalization over the years in terms of various industries. At present, 100% Foreign Direct Investment (FDI) is permissible under automatic rout in this sector including passenger's car segment. The manufacturing of automobiles and components are permitted 100 percent FDI under automatic rout and import of components is allowed without any restrictions and also encouraged. This liberalization has helped auto sector to restructure itself, absorb newer technologies, and keep pace with the global developments realizing its full potential, leading to a turnover of US \$ 12 billion in the Indian auto industry and US \$ 3 billion in the auto parts industry.

The overall details of trade and investment in this sector from 2004 – 2005 to 2009 – 2010 is given below:

Table 4.1
Performance of Automobile Sector

	2004 - 2005	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2009 -2010
Turnover	38,500	53,400	64 ,500	72 ,000	76,320	103. 400
% Growth	25. 7	38. 7	20.8	11. 6	6.0	35
Exports	7,937	11,198	13,184	14,132	16,522	17,860
% Growth	37.0	41I	17.7	7.2	17	8
Imports	9,504	12,115	15,974	20,998	28,160	38,352
% Growth	46.2	27.5	31. 9	31. 5	34	36
Investment	16,800	19,500	24 ,400	28,800	32,000	42,300
% Growth	15.9	16. 1	23. 1	20.0	11I	32
% Turnover	24. 7	22. 7	24.8	29.2	36.9	32
Export as % of turnover	20.6	21. 0	20.4	19.6	21. 6	15

* calculated@47 for 2009 -10* @43.2 for 2008 -09



Opportunities of FDI in the Automobile Sector in India exist in

- Establishing Engineering Centers
- Two Wheeler Segment
- Exports establishing Research and Development Centers
- Heavy truck segment
- Passenger Car segment
- Auto Spare Parts

Destination India

With the finalisation of the Automotive Mission Plan (AMP) India is expected to become a preferred destination for design and manufacture of automobile. The plan envisaged an investment of US \$ 40 billion and provided a road map to help transform India in to a global automobile player. The AMP proposed a 25 – point plan that included making India a manufacturing and export hub for small cars, multi – utility vehicles, two and three – wheelers, tractors and components.

Furthermore, Indian companies are compliant with global automotive standards, e. g. the Japanese's Industrial Standard Committee (JISC) and Deutsches Institut für Normung (DIN). India offers the advantage of low manufacturing costs due to economies of scale, low design, research and labour costs, and local sourcing of tools and components.

Auto component exports are expected to grow to US \$ 30 billion by 2020. India's share in the global auto components market is expected to rise from 0.9 per cent in 2008 – 2009 to 2.5 per cent in 2015.

13. EDUCATION

Overview

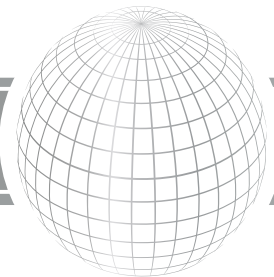
The education sector in India is one of the most important sectors, as it holds the key to social and economic development of the country. India has one of the largest and oldest systems of higher education. Presently, there are 496 Universities in the country including 239 State Universities (established by the State Governments), 130 Deemed Universities (a status of autonomy granted to higher performing institutes and universities by the Department of Higher Education), 40 Central Universities (established by the Department of Higher Education), 49 Private Universities, and 38 institutes of National importance such as IIT, and IIM. In addition, there are private and accredited universities, institutions created by an act of parliament, independent institutes and over 16,000 colleges, Together they offer a wide range of degree and diploma programs.

But despite such large numbers, demand outstrips supply by a wide margin. There are approximately 10 + million students enrolled in higher education in India. This number is projected to increase annually. Competition is fierce for limited seats in competitive engineering and management programs.

Foreign Direct Investment (FDI)

FDI Inflows in the Education sector has been allowed by the Indian government, 100% under the automatic route, subject to certain regulations. FDI Inflows to Education sector in India are expected to provide significant benefits to Indian students.

It is estimated that the investment potential in the India Education industry is expected to cross \$ 50 billion mark by



2015. The Associated Chambers of Commerce and Industry of India in a report found that about 55% of the country's middle class households have started saving for their children's higher education. With education gradually being looked at as an investment as opposed to an inevitable expense, the higher education market size in India is expected to grow by over US \$ 30 billion in the next five years. The association's report revealed that the government is planning to spend about 5% of its GDP revenues in the next five years on education. Subsequently, India's market for primary, secondary and tertiary education could be over US \$ 50 billion by the year 2015 due to this higher GDP spending expectations on the sector, an increase in disposable income for urban areas and the planned increase in enrollment to higher education of 15% from its lows at 9% currently. It is also estimated that about 45,000 Indian students spend a total of US \$ 30 billion on overseas education.

4. POWER & ELECTRICAL POWER GENERATION

Overview

Energy is important for the social and economic development of a country. India has the fifth largest power generation capacity in the world with an installed capacity of 157, 229 MW which is about 4% of global power generation. Both government and private sector firms generate electric power in India, with the government and private sector firms generate electric power in India, with the government sector leading the pack. National Hydroelectric Power Corporation, National Thermal Power Corporation and various state level corporations (state electricity boards – SEBs) are the major players. State Electricity Boards (SEBs) or private companies oversee the transmission and distribution (T&D). There has been significant improvement in the growth in actual generation over the last few years. Out of the total installed capacity, private sector companies produce about 16%, the central Government owns 33% and the remaining 51% is produced by various state governments. However, the current electric power supply is 30 percent less than the demand.

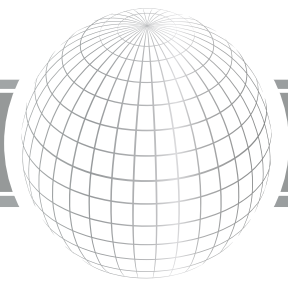
The Indian Government has set ambitious goals for the next few years for the power sector, for which the sector is poised for significant expansion. In order to provide availability of over 1000 units of per capita (from the current 720 units) of electricity by the year 2012, it has been estimated that need based capacity addition of more than 100,000 MW would be required. This has resulted in massive addition plans being proposed in the sub-sectors of generation, transmission and distribution.

The following table shows electricity generation in the country from 1997 – 1998 to 2010 -2011:

Table 4.2
Generation (BU)

Billion Unit	*Up to December	Billion Unit	*Up to December
1997-98	420.6	2004-05	587.4
1998-99	448.4	2005-06	617.5
1999-2000	480.7	2006-07	662.4
2000-01	499.5	2007-08	704.5
2001-02	515.2	2008-09	723.8
2002-03	531.6	2009-10	771.6
2003-04	558.3	2009-10*	571.6
		2010-11*	597.6

Source: Ministry of Power



The Integrated Energy Policy document has estimated energy requirements in the year 2030 to be about 950,000 MW. The government encourages promotion of public – private partnerships to meet the estimated \$ 1.2 trillion investment required over the next 25 years to provide electricity to consumers at an affordable cost.

Government Policies & Reforms

The Ministry of Power has set a goal – Mission 2012; Power for All. This mission would require that the installed generation capacity should be at least 200,000 MW by 2012 from the present level of 157,000 MW. The power requirement will double by 2020 to 400,000 MW. About 25% - 33% of this growth will come from independent Power Producers (IPPs), with the rest coming from the public sector. It is estimated that building 100,000MW in additional power capacities and associated transmission & distribution infrastructure will require an investment of \$ 170 billion.

Foreign direct Investment (FDI)

The huge size of the market in the power sector in India and higher returns on investment are important factors and attractions in boosting FDI inflows to power. 100% FDI is permitted to this sector under automatic route in almost all the power sectors in India except the Atomic energy subject to provisions of the electricity Act 2003. The power sectors include Generation and transmission of electric energy produced in – hydro electric, coal/ lignite based thermal, oil based thermal and gas based thermal power plants, Non – Conventional energy Generation and Distribution, Power Trading and distribution of electric energy to house holds, industrial, commercial and other users.

Opportunities

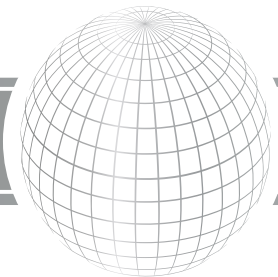
There are tremendous opportunities in the Power generation sector as out lined above. In addition, GOI's commitment to push through reforms and recent policy initiatives to encourage Transmission & Distribution (T&D), the demand for T&D equipment is expected to grow. Chinese power equipment suppliers will find significant sales opportunities in power distribution transformers, high voltage power cables, relays, conductors, capacitors and circuit breakers. There are excellent prospects in Supervisory Control and Data Acquisition (SCADA) and Energy Management (EMS) systems to effectively integrate distribution automation with demand side management. Indian T&D companies are seriously exploring their right – of – way to establish fiber – optic and telecommunication networking for commercial opportunities in the cable Internet and e – commerce operations.

5. MEDIA & ENTERTAINMENT SECTOR

Overview

The entertainment and media industry is gaining lot of importance in India at US \$ 12.91 billion in 2009. According to a report by the FICCI and KPMG, the industry is expected to grow at a compounded annual growth rate (CAGR) of 13 percent by 2014.

Indian Film Industry is one of the world's largest with more than 1000 movie releases annually. In 2009, the print media industry stood at US \$ 3.85 billion and showed a moderate growth of 2%. The industry is projected to grow at a CAGR of 9 percent and reach around US \$ 5.90 billion by 2014. Number of pay DTH subscribers is estimated to grow to around 28 million households by 2013.



Key Drivers for Entertainment Industry

- Economic growth of the country in general and rising disposable income levels in particular
- India's demographic composition (70% below 35 years) ensures an attractive market for entertainment
- Gradually liberalizing attitude of the Government
- Greater interface with international companies
- Privatization and growth of the radio industry
- Advancement in technology
- Favorable regulatory initiatives
- Liberalized foreign investment regime

Foreign Direct Investment (FDI)

The FDI limits in the various segments of entertainment and media industry are highlighted below:

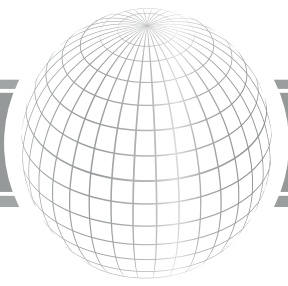
• 100% FDI under the automatic route for advertising and film industry including film financing, production, distribution, exhibition, marketing and associated activities

- Foreign investment, including FDI and portfolio investments are permitted up to 20% equity for FM Radio's Broadcasting Services with prior approval of the Government
- Foreign investment, including FDI and portfolio investments are permitted up to 49% for Cable Networks under Government route
- Foreign investment, including FDI and portfolio investments are permitted up to 49% for Direct to home under government route, subject to certain conditions.
- Up-linking of TV Channels: FDI (including investment by FII) up to 49% would be permitted under the government route for setting up Up-linking HUB/Teleports; FDI up to 100% is allowed under the Government route for Up-linking a Non – News & Current Affairs TV Channel; FDI (including investment by FII) up to 26% would be permitted under the Government route for Up – linking a News & Current Affairs TV Channel.
- Newspaper & Periodicals publishing: FDI up to 26% under the Government Route in Publishing of Newspaper and periodicals dealing with news and current affairs and publication of Indian editions of foreign magazines dealing with news and current affairs. FDI up to 100% for Publication of facsimile edition of foreign newspapers and publishing/ printing of Scientific and Technical Magazines/ specially journals / periodicals under Government route, subject to certain conditions.

According to the Department of Industrial Policy & Promotion (DIPP), the information and broadcasting industry, including print media, witnessed FDI inflow of US \$ 2.04 billion during April 2000 and September 2010.

Investment Opportunities

- Theater/ Multiplex Infrastructure
- Television Segment
- Film Entertainment
- Animation Segment
- Print Media
- Mobile Entertainment
- Television Software Content
- Advertising



6. FOOD PROCESSING SECTOR

Overview

India is one of the world's largest producers as well as consumers of food products, and the sector plays an important role in the Indian economy with food, constituting about 30% of the consumer wallet.

The contribution of agriculture in India's GDP is 18% while it engages 70% of the country's population. It is estimated that if the country should maintain an 8% GDP growth rate, the agricultural sector has to grow at the rate of at least 4%. Indian food processing industry is widely recognized as a sunrise industry having huge potential for uplifting agricultural economy, creation of large scale processed food manufacturing and food chain facilities, and the resultant generation of employment and export earnings.

With the overwhelming success of the Green and White Revolution, India is now fervently poised for the Food Revolution that will ensure agricultural diversification and large investments in food processing. The entries of multinationals, aggressive rise of commodity branding and low cost of technology are changing the economics of the Indian food industry.

The Indian food market is approximately \$ 69.4 billion, of which value added food products comprise \$ 22.2 billion. Food production in the country is expected to double by the year 2020. With food production expected to double by 2020, large investments are already going into food and food processing technologies, skills and equipment. The government has formulated and implemented several plans and schemes to provide financial assistance for setting up and modernizing of food processing units, creation of infrastructure, support for research and development and human resource development in addition to other promotional measures to encourage the growth of the processed food sector.

Government Policies & Reforms

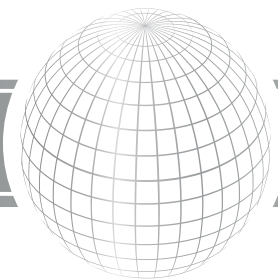
Important policy initiatives by the Government, increasing public – private participation and improvement of rural infrastructure have led to significant growth in flows to the sector.

In the budget 2011 – 2012, the Union Finance Minister, Shri Pranab Mukherjee announced to set up 15 more mega food parks (MFPs), urged the states to reform the Agriculture Produce Marketing Act (APMC) to improve the supply chain and added that in the 11th Five year plan, the number of food parks would be increased to a total of 30 with the budget to the Food Processing Ministry increasing from the existing US \$ 90 million to US \$ 135 million.

Vision 2015 was announced by the Government of India, which suggested the strategy to ensure faster growth of the food processing sector and enhancing the level of the processing of perishable to 20 percent, value addition to 35 percent.

Beside attracting FDI through schemes like mega food park, the government has also extended several fiscal incentives such as full exemption from excise duty for specified equipments to preserve, store or transport apiary, horticultural, dairy, poultry, aquatic and marine produce and meat and its processing products, service tax exemption to include food grains and pulses in addition to fruits, vegetable, eggs and milk.

The center is keen on projecting FDI in the food processing industries, where 100% FDI is already allowed under automatic route in food processing industry and food infrastructure including food parks, distillation & brewing of



alcohol, cold storage chain and warehousing.

Foreign Direct Investment (FDI)

According to data, the Government of India has set a target of US \$ 25.07 billion of FDI inflows to be achieved by 2015 with a growth rate of 10% being expected in the years to come.

The total inflow of FDI in FPI sector during the last five years since April 2004- march 2009 is Rs 1892.02 crore (US \$

Table 4.3
FDI flow in Food Processing Sector (2004 -2009)

Year	FDI (in Rs Cr.)
2004 - 2005	174.08
2005 - 2006	182.94
2006 - 2007	441. 00
2007 - 2008	632.00
2008 - 2009	462.00
Total	1892.02

According to a FCCI and E&Y study on the Indian food industry called Flavors of Incredible India -----Opportunities in the Food Industry, published in October 2009, investment opportunities Indian food industry are set to shoot up by a huge 42.5 percent to US \$ 181 billion in 2015 and to US \$ 318 billion by 2020.

7. CEMENT INDUSTRY

Overview

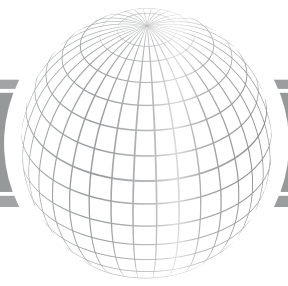
India is the 2nd largest cement producer in the world, with an installed capacity of about 236 million tonnes (MT) in 2009 -2010. The sector is expected to add an additional capacity of 92.3 MT by 2013. As a result, the industry will have a total installed capacity of 383.5 MT by March 2013.

According to latest research report "Indian Cement Industry Forecast to 2012", produced by RNCOS, cement production in India has grown at a brick pace during the last few years. Despite recession, Indian cement industry performed incredibly well amid recent boom in the infrastructure and housing markets. In view of the upcoming massive infrastructure projects, manufacturers are aggressively increasing their production capacities and the study foresees a 10.5 percent CAGR growth in cement production during FY 2010- FY 2014.

Government Policies & Reforms

The cement industry is pushing for increased use of cement in highway and road construction. The Ministry of Road Transport and Highways has planned to invest US \$ 354 billion in road infrastructure by 2012. Housing, infrastructure projects and the nascent trend of concrete roads would continue to accelerate projects and the nascent trend of concrete roads would continue to accelerate the consumption of cement.

The infrastructure sector has received an impetus in the form of increased funds and tax related incentives offered to



attract investors for tapping the infrastructure opportunities around the country. Introduction of tax free bonds, creation of infrastructure debt funds, formulating a comprehensive policy for developing public private partnership projects are some announcements which will give a fillip to the infrastructure sector which is the backbone of any economy.

Foreign Direct Investment (FDI)

The government of India has allowed foreign direct investment up to 100% in the cement and gypsum products industry of the country. This has led to the increase in FDI Inflows to Cement and Gypsum Products industry in India.

Cement and gypsum products have received cumulative foreign direct investment (FDI) of US \$ 2, 315.58 million between April 2000 and January 2011, according to the Department of Industrial Policy and Promotion (DIPP).

8. IRON & STEEL INDUSTRY

Overview

Steel industry has a major role to play in the economic growth of India. With new global acquisitions by Indian steel giants, setting up of new state – of – the – art steel mills, modernisation of existing plants, improving energy efficiency and backward integration into global raw material sources, India is now on the centre of the global steel map. Consumption of steel in the construction sector, industrial applications, and transport sector has been on the rise and special steel usage in engineering industries such as power generation, petrochemicals and fertilizer industry is also growing.

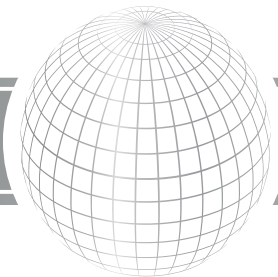
India has retained its position as the 5th largest producer in 2010 and recorded growth of 11.3 per cent as compared to 2009. India has also emerged as the largest sponge iron/ direct reduced iron (DRI) producing country in the world in 2010, a rank it has held on since 2002. Sponge iron production grew at a CARG of 11 per cent to reach a level of 20.74 million tonne (MT) in 2009- 2010 as compared to 14.83 MT in 2005- 2006. India is expected to become the second largest producer of steel in the world by 2015- 2016, on account of growing steel demand, rich resources base of iron ore, skilled manpower and vast experience of steel making and the huge capacity expansion planned and being executed in the steel sector.

With the expanding consumer market, Indian steel industry is likely to receive huge domestic and foreign investments. Nearly 222 memorandums of understandings (MOUs) for planned capacity of around 276 MT have been signed between the investors and various State Governments.

Crude steel production was registered at 51.57 MT during April – Dec 2010 in the country as per Joint Plant Committee (JPC). The production is expected to be nearly 110 MT by 2012- 2013. Crude steel production grew at a compound annual growth rate (CAGR) of 8.4 per cent during the five years, 2005-2006 to 2009- 2010.

The India steel industry has been on a high- growth trajectory led by buoyancy in sectors such as infrastructure and construction, oil and gas automobiles. The demand for steel is expected to further increase with major international automobile manufactures setting manufacturing facilities in India.

The consumption of steel domestically was recorded at 44.28 MT, indicating further strengthening of demand during Apr – Dec 2010. The consumption of steel in the country has shown an increase of 10.3 per cent during April 2010 to January 2011 as compared to the same period of previous year.



Major Developments

The India steel market has witnessed the announcements of mega expansion plans from leading domestic producers in the form of greenfield and / or brown field projects. Furthermore, with an expanding consumer market, the steel industry in India is likely to receive huge domestic and foreign investments.

Foreign Direct Investment (FDI)

The current policy regime allows 100 percent foreign domestic investment (FDI) in steel sector. Some multinational steel companies like POSCO and Arcelor Mittal have signed MOU with respective to State Government to set up steel production units in the country. The total proposed capacity under FDI is approximately 45 MT. Tata Steel Ltd (TSL) and Nippon Steel Corporation (NSC) have signed a joint venture (JV) agreement to setup India's first continuous annealing and processing line (CAPL) for the production of 600,000 tonnes per annum of automotive cold – rolled steel at Jamshedpur, India.

9. HEALTHCARE

Overview

Government is mandated to shape, strengthen, support and sustain a health system where every citizen has access to readily available, qualitatively appropriate and adequately wide ranging health services at affordable costs.

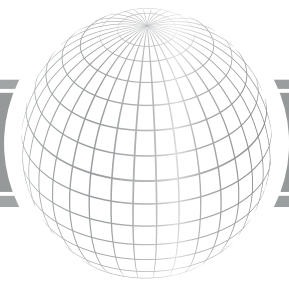
According to a report by FICCI:

- The Indian health care sector is expected to become a USD 280 billion industry by 2020 with spending on health estimated to grow 14 percent annually
- At present the sector is estimated to be around USD 40 billion and will grow USD 78.6 billion by 2012
- India spent 5.2 percent of the GDP on health care, of which 4.3 percent was spent by the private sector valued at USD 22 billion.
- Private sector expenditure in the health care segment is expected to reach USD 45 billion by 2012
- the hospital segment alone is expected to reach USD 54.7 billion by 2012, representing more than 70 percent of healthcare sector revenues.
- In terms of employment, the healthcare industry is expected to provide jobs to 9 million people by 2012
- Among the healthcare sectors, medical devices and supplies market in India is to reach USD 2.2 billion by 2012.

The report also stated that "healthcare has emerged as one of the most progressive and largest service sectors in India with an expected GDP spend of 8 percent by 2012 from 5.5 percent in 2009 and is believed to be the next big thing after IT. Increase in personal income, government health care outlays and private domestic investments, combined with longer life expectancy should lead to annual average growth in health care spending of around 14 percent in the forecast period. Increase in personal income, government health care outlays and private domestic investments, combined with longer life expectancy should lead to annual average growth in health care spending of around 14 percent in the forecast period."

India would require another 1.75 million beds by the end of 2025, states a study by an industry body and Ernst & young. The public sector however is likely to contribute only around 15 – 20 percent of the required US \$ 86 billion investment.

In near future, India has the potential for medical tourism, as the cost of treatment in India is much lower than other developed countries. It is expected that the health care industry would earn revenues worth US \$ 2.2 billion by the year 2012.



Health Insurance

The Indian health insurance market has emerged as a new and lucrative growth avenue for both the existing players as well as the new entrants. According to a latest research report “Booming Health Insurance in India” by research firm RNCOS released in April, 2010, the health insurance market represents one of the fastest growing and second largest non – life insurance segment in the country. The Indian health insurance market has posted record growth in the last two fiscals (2008- 2009 and 2009- 2010). Moreover, as per the report, the health insurance premium is expected to grow at a compound growth rate (CAGR) of over 25 percent for the period spanning from 2009- 2010 to 2013- 2014.

Foreign Direct Investment (FDI)

The healthcare industry is supported by sectors like the pharmaceuticals, biotechnology, medical instrumentation, etc. The Central government has provided these sectors with growth oriented policies.

To encourage investment in the health care sector, government of India has allowed 100% FDI under the automatic route, subject to certain conditions.

As per data released by the Department of Industrial Policy and Promotion (DIPP), the drugs and pharmaceuticals sector has attracted foreign direct investment (FDI) worth US \$ 1,78 billion between April 2000 and January 2010, while hospitals and diagnostic centers have received FDI worth US \$ 980.38 million in the same period.

Opportunities in various segments

- Diagnostics Services: Imaging and pathology labs
- Infrastructure: Hospitals, Diagnostic centers
- Healthcare BPO including medical billing, disease coding, forms processing and claims adjudication

The Government has given infrastructure status to hospitals, ;lower tariffs on medical equipment, tax holiday for five years for hospitals in rural areas etc to promote the sector.

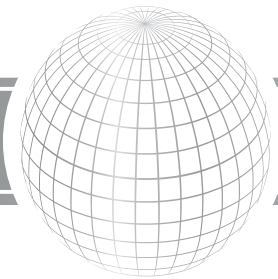
10. TEXTILE INDUSTRY

Overview

The Indian Textile Industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textiles industry also plays a pivotal role through its contribution to industrial output, employment generation, and the export earnings of the country.

The Indian textile industry contributes about 14 per cent to industrial production, 4 percent to the country's gross domestic product (GDP) and 17 per cent to the country's export earnings, according to the Annual Report 2010- 2011 of the Ministry of Textiles. It provides direct employment to over 35 million people and is the second largest provider of employment after agriculture. The industry is expected to grow from the present US \$ 70 billion to US \$ 220 billion by 2020.

The major sub – sectors that comprise the textiles sector include the organized Cotton/Man – Made Fiber Textiles Mill Industry, the Man – Made fiber/ Filament Yarn Industry, the Wool and Woollen Textiles industry, the agriculture and silk Textiles Industry, Hand-looms, Handicrafts, the Jute and Jute Textiles Industry, and Textiles Exports.



India has the potential to increase its textile and apparel share in the world trade from the current level of 4.5 percent to 8 percent and reach US \$ billion by 2020, as per a ministry of Textiles press release November 2, 2010.

Government policies & reforms

According to the Ministry of Textiles, under the Technology Upgrading Fund Schemes (TUFS) has been increasing steadily. During 2010 – 11 (up to June 2010, provision figures), 256 applications have been sanctioned at a project cost of US \$ 89.2 million. The cumulative progress as on June 30, 2010, includes 28, 302 applications sanctioned at a project cost of US \$ 46.71 billion. The Ministry of Textile has sanctioned a total of US \$ 133 million under TUFS during September 2010.

The Scheme for Integrated Textile Park (SITP) was approved in July 2005 to facilitate setting up of textiles parks with world class infrastructure facilities. Forty parks have been sanctioned till December 31, 2010 in nine states with total project cost of about US \$ 931.1 million with Government contribution of US \$ 4.3 billions.

The Government has launched the integrated Skill Development Scheme for the Textiles & Apparel Sector, including Jute & Handicrafts, with an objective of capacity building of Institutions providing skill development & training in Textiles Sector. Under this Scheme, the Government has envisaged skill development of 2.7 million persons with an overall cost of US \$ 530 million over the next five years.

Foreign Direct Investment (FDI)

100 percent foreign direct investment (FDI) is allowed in the textile sector under the automatic route. The textile industry has attracted FDI worth US \$ 934.04 million between April 2000 and January 2011, according to data released by the Department of Industrial Policy and Promotion (DIPP).

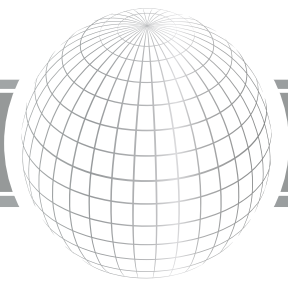
International apparel companies like Hugo Boss , Liz Claiborne, Diesel, Ahlstrom, Kanz, baird McNutt, etc have already started their operations in India and these companies are trying to increase it to a considerable level. National and the international companies that are involved in collaborations include Rajasthan

Spinning & Weaving Mills, Armani, Raymond, Levi Strauss, De Witte Lietaer, Barbara, Jockey, Vardhman Group, Gokaldas, Vincenzo Zucchi, Arvind brands, Benetton, Esprit, Marzotto, Welspun, etc.

The Road Ahead

The Synthetic and Rayon Textile Export Promotion council (SRTEPC) has set a target to more than double the export of man- made textile from the country. Presently, the global man – made fiber (MMF) trade accounts for 60 percent of the total trade in textiles. STREPC plans to increase exports to US \$ 6.2 billion by capturing four percent market share by 2011- 2012, as per G K Gupta, Chairman, SRTEPC.

With an increased focus on catering to the domestic market, the denim industry is India expects the production capacity to rise by 100 million meters by 2011. According to the Textile Association of India (TAI), the denim manufacturing capacity, which stands at 600- 650 million meters per annum, is set to witness an addition by another 100 million meters wherein 70 percent focus will be on the domestic market.



11. REAL ESTATE & CONSTRUCTION

Overview

The sector for infrastructural development and construction activities plays a vital role in India. According to a report 'Emerging trends in Real Estate in Asia Pacific 2011', released by PricewaterhouseCoopers (PwC) and Urban Land Institute (ULI), India is the most viable investment destination in real estate.

Government Policies & Reforms

Historically, the real estate sector in India was unorganised but in recent years however, the real estate sector in India has exhibited a trend towards greater organisation and transparency, accompanied by various regulatory reforms such as Government of India support to the repeal of the Urban Land Ceiling Act, Modifications in the Rent Control Act, Rationalization of property taxes in a number of states and proposed computerization of land records. The trend towards greater organisation and transparency has led to development of the sector and the organised investments by domestic and international financial institutions have also resulted in the greater availability of financing for estate developers.

Foreign Direct Investment (FDI)

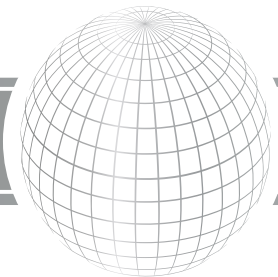
It was during the union Budget 2005 – 2006 that the Government of India opened up all gates for foreign direct investment in the construction industry in India. Construction projects which have received the maximum FDI include, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure.

The government has introduced many progressive measures regarding FDI in the sector:

- 100 percent FDI allowed in townships, housing, built – up infrastructure and construction development projects through the automatic route, subject to guidelines as prescribed by DIPP
- 100 per cent FDI is allowed under the automatic route in development of Special Economic Zones (SEZ), subject to the provisions of Special Economic Zones Act 2005 and the SEZ policy of the Department of Commerce
- FDI is not allowed in Real Estate Businesses or construction of form houses

The relaxed FDI rules implemented by India government have attracted more foreign investors and real estate in India. The revised investor friendly policies allowed foreigners to own property, and dropped the minimum size for housing estates built with foreign capital to 25 acres (10 hectares) from 100 acres (40 hectares). The overseas firms welcomed these modifications and they can now put up commercial buildings as long as the projects surpass 50,000 square meters (538, 200 square feet) of floor space.

According to the data released by the Department of Industrial Policy and Promotion (DIPP), housing and real estate sector including cineplex, multiplex, integrated townships and commercial complexes etc, attracted a cumulative foreign direct investment (FDI) worth US \$ 9,405 million from April 2000 to January 2011 wherein the sector witnessed FDI amounting US \$ 1, 048 million during April 2010 – January 2011.



12. INFORMATION TECHNOLOGY

Overview

The Indian information technology (IT) industry has played a major role in placing India on the global map and is now envisioned to become a US\$ 225 billion industry by 2020. Over the last few years the IT and BPO sector in India has become one of the major contributors to the country's growth, crossing significant milestones in terms of revenue growth, employment generation and value creation, in addition to becoming the global brand ambassador for India.

The Indian IT industry is mainly governed by IT software and services such as System Integration, Software experiments, Custom Application Development and Maintenance (CADM), network services and IT Solutions.

According to a research report published by National Association of Software and Service Companies (NASSCOM), 'IT-BPO Sector in India: Strategic Review 2011', the sector is estimated to aggregate revenues of US \$ 88.1 billion in FY2011, with the IT software and services sector (excluding hardware) accounting for US \$ 76.1 billion of revenues.

Some of the other estimates of the report are:

- export revenues to gross US \$ 59 billion in FY2011 and contribute 26 percent as its share in total Indian exports (merchandise plus services), employing around 2 million employees.
- Within exports, IT Services segment was the fastest growing segment, growing by 22.7 percent over FY2010, and aggregating export revenues of US \$ 33.5 billion, accounting for 57 percent of total exports.
- Domestic IT-BPO revenues excluding hardware are expected to grow at almost 16 percent to reach US \$ 17.35 billion in FY2011.

Strong economic growth, rapid advancement in technology infrastructure, increasingly competitive Indian organisations, enhanced focus by the government and emergence of business models that help provide IT to new customer segments are the key drivers for increased technology adoption in India.

India will see its number of internet users triple to 237 million by 2015, from 81 million registered in September 2010, according to a report titled *Internets Newbn*, by the Boston Consulting Group (BCG). The Internet penetration rate is expected to reach 19 percent by 2015, up from the current seven percent.

The Government has also targeted a 10-fold increase in broadband subscribers to 100 million by 2014. The country has 10.29 million subscribers now and target is 100 million broadband subscribers by 2014.

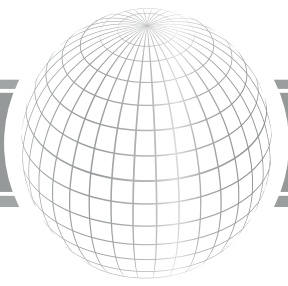
India's personal computer market grew 30 percent in 2010----- the highest since 2007, research firm IDC revealed.

Government Policies & Reforms

Government sector is a key catalyst for increased IT adoption- through sectors reforms that encourage IT acceptance, National eGovernance Programmes (NeGP) and the Unique Identification Development Authority of India (UIDAI) programme that creates large scale IT infrastructure and promotes corporate participation.

Some other Government initiatives can be understood as under:

The Indian government has established a National Taskforce on IT with an aim of formulating a durable National IT Policy for India



- Enactment of the information Technology Act, which offers an authorized structure to assist electronic trade and electronic operations.
- Technical Advisory Group for Unique Projects (TAGUP) which would develop IT infrastructure in five key areas, which includes the New Pension System (NPS) and the Goods and Services Tax (GST)
- Setting up of Software Technology Parks of India (STPIs) since 1991 for the promotion of software exports from the country where apart from exemption from customs duty available for capital goods there are also exemptions from service tax, excise duty, and rebate for payment of Central Sales Tax.
- Setting up Information Technology Investment Regions (ITIRs). These regions would be endowed with excellent infrastructure and would reap the benefits of co-siting, networking and greater efficiency through use of common infrastructure and support services.

Foreign Direct Investment (FDI)

The information technology industry of India has been attracting considerable amount of foreign direct investment in the recent years. Investments are being made in the four principal sectors of the India information technology industry online businesses, information technology services, information technology based services and software merchandise.

Between April 2000 and December 2010, the computer software and hard ware sector received cumulative foreign direct investment (FDI) of US \$ 10, 601 million, according to the Department of Industrial Policy and Promotion.

Some Major Investments

- The total investments of EMC Corporation, a leading global player of information infrastructure solutions in India, will touch US\$ 2 billion (over US\$ 2.01 billion) by 2014.
- Syntel, an IT company, plans to invest around US\$ 50 million in its global development centre in Chennai.
- Russian IT security software provider, Kaspersky Lab, will be investing US\$ 2 million in its India operations at Hyderabad during 2011.
- On the back of 40 percent revenue growth, Cognizant will invest more than US \$ 500 million till 2014 to expand its campuses to add over 8 million square feet to house over 55, 000 employees.

13. MACHINE TOOLS

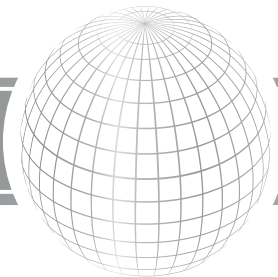
Overview

Machine Tools industry is a strategic industry that determines the manufacturing competitiveness of other sectors such as automobiles, defence, aerospace, heavy electrical equipments, consumer good etc. India ranks 17th in production and 12th in the consumption of machine tools in the world. The country is set to become a key player in the global machine tools industry and is likely to see substantial high – end machine tool manufacturing.

Several firms have entered the Indian machine tools sector, or announced plans for joint ventures or wholly owned subsidiaries in India. There are 200 machine tool manufacturers and 400 small scale units in the organised sector.

Foreign Direct Investment (FDI)

This industry is de-licensed and FDI up to 100% is allowed under the Automatic route as well as technology collaboration is allowed freely.



The quantum of foreign direct investment in the Indian machine and tools industry amounted to US \$ 155.43 million during the period from August 1991 to December 2005. The major suppliers include Japan, Germany, Italy, Korea, China, and the United States.

Opportunities

The Indian machine tools sector offers several opportunities for investment and trade. Given the current gap between demand and supply, there is a clear need for adding capacities in this sector. The industry is moving towards increasingly sophisticated CNG machines, driven by demand from key user segments, such as automobiles and consumer durables. Machine tool manufacturers need to develop capabilities to cater to this demand and investments in this area could yield long-term benefits. At the same time, R&D and design capabilities are also gaining importance, as critical success factors for the future and this is an area that could see increased investment from Indian and global players. Few global automotive players have already leveraged India as a design hub and this trend could extend to other manufacturing sectors, such as, machine tools, Several Indian States offer attractive locations for setting up manufacturing and R&D facilities in India.

14. SEMICONDUCTORS

Overview

The Indian semiconductor industry is on a growth path driven by an upsurge in domestic sales in sectors such as telecom, automotive, industrial electronics and consumer electronics. The solar energy, renewable energy and automated healthcare service sectors too are beginning to boost demand and growth for semiconductor products.

The industry clocked a growth rate of 15.6 percent last year aided by the growth in demand for wireless handsets, low-priced notebooks and smart cards. The semiconductor industry in India is expected to get boost due to the increase in the domestic consumption of electronics hardware. The demand for electronics hardware in India is set to grow from \$ 45 billion in 2009 to US\$ 400 billion by 2020, according to industry estimates. Further, by 2013, the market size for nanotechnology-enabled products will be around US\$ 1.6 trillion.

Government Policies & Reforms

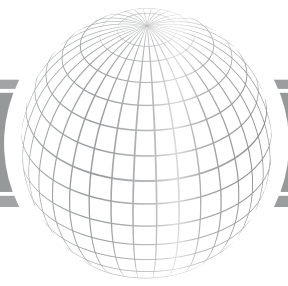
Some of the policies of the Government towards this sector are:

- Special Incentive Package Scheme (SIPS) aimed at galvanising investments in semiconductor fabs, ecosystem units and solar PV projects, which has attracted 26 proposals, worth more than US \$ 51.7 billion.
- A comprehensive policy by the Karnataka Government in 2010, aimed at attracting electronics and hardware companies to the state. The policy has promised sops and financial assistance by the state government to companies in the electronics systems and semiconductor space.

15. MINING

Overview

The history of mineral extraction in India dates back to the days of the Harappan civilization. The wide availability of the minerals in the form of abundant rich reserves made it very conducive for the growth and developments of the mining sector in India.



India is endowed with significant mineral resources. The country produces 86 minerals and has approximately 2,729 operational mines. India ranks within the top ten global producers for the metallic minerals like mica, barites, coal & lignite, iron ore, chromite, bauxite and manganese. India's mining sector employs over a million people. The value of mineral production in India, excluding atomic minerals, was approximately \$ 28 billion in 2009, with a growth of around 8 percent over the previous year. About 73 percent of the mining activities are in coal, excavated from 570 mines. India ranks third in worldwide production (532.33 million tons in 2009) and consumption (over 550 million tons) of coal & lignite. Coal accounts for approximately 55 percent of the country's energy need. Demand for coal is projected to be over 2 billion tons by 2032. The country has a potential coal – bearing area of approximately 17,303 sq. kilometers, of which only about half has been partially explored.

India produces as many as 87 minerals, which include 4 fuels, 10 metallic, 47 non- metallic, 3 atomic and 23 minor minerals.

Sustaining the high growth of the Indian economy will depend on the accelerated pace of growth in mining of coal and other minerals.

Foreign Direct Investment (FDI)

India possesses great potential of mineral resources. However, there exists considerable scope for augmenting the resource position by further exploration of known deposits and discoveries of new deposits, adopting state – of – the – art technology and modern methods like aerial reconnaissance or geophysical surveys.

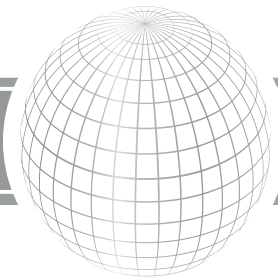
Being aware of the vast potential of the sector, the Indian Government has been consistently and in a pragmatic manner opening up the previously controlled regime to usher private investment in the sector and infuse funds, technology and managerial expertise. The Indian mining sector was opened up to Foreign Direct Investment in 1993 after the announcement of the New Mineral Policy. Initially, all proposals were considered on a case to case basis the Foreign Investment Promotion Board (FIPB). FDI policy in the mining sector was further liberalised in January 1997 which opened up an “automatic approval” route for investments involving foreign equity participation upto 50% in mining projects, and up to 74% in services incidental to mining.

The liberal National Mineral Policy, announced in 2008, encourages private mining in the thirteen minerals such as iron ore, manganese, chrome, sulfur, gold, diamond, copper, lead, zinc, molybdenum, tungsten, nickel and platinum.

The Foreign Direct Investment (FDI) policy in the mining sector has been gradually liberalized over the last few years.

India now allows 100 percent foreign direct investment (FDI) in mining and exploration of non – core minerals like gold, silver, and diamonds. Hundred percent FDI is also permitted in oil exploration and captive mining of coal and lignite. Fifty percent FDI is permitted under joint venture with a public – sector unit. In coal processing (washing and sizing), 100 percent FDI is allowed. With this, the Foreign Direct Investment in the mining sector for all non- atomic and non- fuel minerals have now been fully opened up to 100% through the automatic route including diamonds and precious stones.

The Investment Commission estimates that investment opportunities, valued at \$ 30 to 40 billion, will be available over the next ten years, to explore and develop new coal mines, to manufacture and sell state – of – the – art mining equipment and technology, and to create related infrastructure for the off – take of mined coal. Till March 2010, 208 coal blocks have been allocated to various end – users.



Market for Equipment

The Indian market for mining and mineral processing equipment is estimated at over \$ 2.2 billion. Eighty percent of this is in the coal mining sector. Open cast mines contribute more than 80 percent of the total production, but there is a renewed focus on underground mining. With the focus on increased productivity and private investment in mining, India is anticipated to become a major market for advanced mining equipment and technology. Most of the global technology leaders are present in India as joint venture companies, or have set up their own manufacturing facilities, or marketing companies.

Foreign mining companies in India

- De-Beers Consolidated mines Ltd, South Africa
- Pebble creek resource Ltd, Canada
- Anglo American Exploration (India) BV, Netherlands
- Metdist Group, UK
- Phelps Dodge Exploration Corpn, USA
- Transworld Granet Co, Canada
- Rio- Tinto Minerals Developments Ltd, UK
- Meridian Peak Resources Corpn, Canada
- BHP Billiton, Australia

16. HOMELAND SECURITY EQUIPMENT

Overview

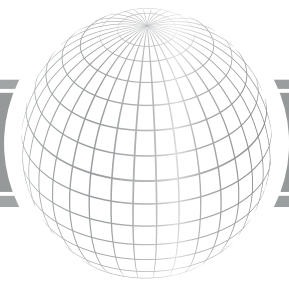
India has a growing homeland security market, partly as a result of the terrorists attacks in Mumbai, November 2008. According to a report by ASSOCHAM and KPMG titled ' Homeland Security in India' predicts that by 2020, India, along with Britain, Germany and France, might outgrow the United States, which presently enjoys a 34 % of the market share in this field. "India, which currently shares 3.6 % of global homeland expenditure, will require to take it upwardly to an extent of 6 % over the next decade to effectively take on emerging security risks," the report notes.

•Some other development in this sector include:

- The demand for security equipment has gone up manifold in recent times, especially after the recent attack on Mumbai. The estimate is that Indian will be investing \$ 12.3 billion into the private security industry by 2016
- Airports security is projected at over \$ 3.2 billion by 2016 at a compound annual growth rate (CAGR) of 5 percent
- Market earned revenues of \$ 800 million in 2007 and estimates this to reach over \$ 1 billion in 2016
- Indian Government is committed to increase its Homeland Security budget by a massive 35% to over \$ 29.52 Billion

Government plans 20 anti- terror schools

India's homeland security agencies, which primarily consist of the paramilitary forces, state and central police forces and the intelligence agencies, function under the aegis of the Indian Ministry of Home Affairs (MHA) . As maintenance of law and order is a state subject, all 28 Indian states maintain considerable police, armed police and special police forces. Provisioning and procurement of all items for the modernization of central police forces is handled by the Police Modernization Division (PMD) of MHA. The Indian Government through MHA is likely to spend over \$ 7.5 billion and



state governments close to \$ 2 billion on the modernization of their police and para – military organizations in the next 3 -5 years. The bulk of the expenditure will be on arms, ammunition, transport, communication equipment, bullet proof jackets, and explosive handling devices.

Over the next three years, India is expected to procure more than \$ 10 billion in state – of – the art commercial and homeland security technology products, solutions, and services for border protection, marine security, counter insurgency, city surveillance, intelligence infrastructure, and other critical security infrastructure needs.

There is a \$ 1.7 billion plan to revamp the country's maritime security architecture. For effective coastal security, India requires maritime patrol boats, ferries, fast attack vessels, maritime surveillance system and equipment , access control systems, biometric systems, CCTV equipment, thermal imaging system, explosives detection equipment, radar systems, screening technologies, cameras x- ray body scanners and baggage scanners, early warning systems, identification systems, transponders, etc.

17. PETROLEUM, OIL AND GAS

Overview

The Indian Petroleum industry is one of the oldest in the world, with oil being struck at Assam in 1867, nine years after Col. Drake's discovery in Titusville. The Indian oil and gas sector is one of the six core industries in India and has very significant forward linkages with the economy.

Against a crude oil production of about 37 million tons per annum (MTPA), India's consumption currently exceeds 125 million tons. India's petroleum product consumption has grown by 4-5 percent over the past 10 years and the oil demand in India is expected to rise to 368 MTPA by 2025.

Oil accounts for 31 percent of India's total energy consumption and there is unlikely to be any significant scaling down of dependence on these fuels in the next five to ten years. India is currently world's fifth biggest energy consumer and the need is continuously growing, according to KPMG's Oil and Natural Gas Overview 2010'.

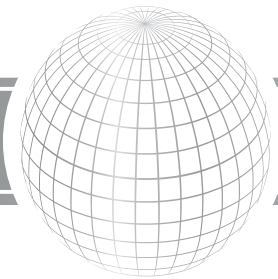
To provide energy security and to keep up to the rising demand the Government of India has initiated policies that have helped investors in the sector and also facilitated exploration and production of oil and gas in the country and the GOI is seeking investment in excess of \$ 100 billion in both the upstream and the downstream sectors during the next 15 years.

With the widening gap between demand and supply, both for oil and gas, the outlook for the upstream sector is extremely positive. While oil and gas will continue to play a substantial role in the total energy mix, the need for harnessing alternate energy sources like Coal Bed Methane (CBM) and gas hydrates will be come crucial to balance the demand and supply.

Production

According to the provisional production data released by the Ministry of Petroleum and Natural Gas, data January 2011 Crude Oil production from the period April – January 2011 was 31.411 million metric tonne (MMT), as compared to the 28.072 MMT in the past corresponding period.

Natural Gas production during April – January 2011 was 44030 million cubic metres, as compared to 38490.7 million cubic metres in the corresponding period in 2010. From April – January 2011, 136.46 MMT of crude oil was refined,



compared to 133.26 MMT in the corresponding period in 2010.

Foreign Direct Investment (FDI)

The Government of India has implemented NELP, by which 100 Percent FDI is permitted for small and medium sized oil fields through competitive bidding.

- The refining sector is open to public – private partnerships (PPP) as well as only private investments. In case of an Indian private company, FDI of 100 per cent is permitted.
- 100 percent FDI is allowed for petroleum products and pipeline sector as well as natural gas/LNG pipeline, for infrastructure related to marketing of petroleum products, market study of formulation and investment financing.

In one of the biggest FDI into the oil and gas sector, BP will be paying US\$ 7.2 billion for a 30 percent stake in 23 oil and gas /LNG pipeline, for infrastructure related to marketing of petroleum products, market study of formulation and investment financing.

In one of the biggest FDI into the oil and gas sector, BP will be paying US\$ 7.2 billion for a 30 percent stake in 23 oil and gas blocks of reliance Industries Ltd (RIL). The amount will be paid to RIL, for the interests it would acquire in the 23 production sharing contracts. Future performance payments up to US\$ 1.8 billion could be paid based on exploration success resulting in development of commercial discoveries. The two will also enter into a 50: 50 joint venture (JV) for sourcing and marketing of gas. These payments and the combined investment could amount to US \$ 20 billion.

The focus of oil refining companies has shifted to clean fuels as per current environmental standers. Clean fuel technology supplied by companies like UOP and Chevron is in great demand. Also, with greater liberalization and ensuing competition, oil- marketing are wooing the retail customer with more and more value – added services provided at retail outlets. In addition to new outlets, existing retail outlets are being modernized with refreshing signge, and the establishment of mini – malls.

India has a presence of some leading global E&P companies like Hardy Oil & Gas, Niko Resources and Cairn Energy

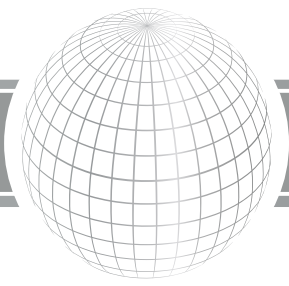
Opportunities

Certain important aspects of the Petroleum and Natural Gas Industry that provide opportunities to foreign investors are:

- The growing demand of Petroleum and Natural Gas ensures more investment.

Petroleum products are the single largest merchandise export from India.

- Strategic Oil & Gas reserved are being promoted by the Government with the help of private sector participation.
- Investment opportunities are being tracked in the discovery of oil fields by investors such as Cairn Energy.
- Large – scale gas filed like Reliance, ONGC, and many more are planning to set up units in which indicate a large potential for beneficial investment in exploration.
- Improved Oil Recovery (IOR)/ Enhanced Oil Recovery (EOR) techniques
- End – user market and infrastructure development
- Setting up oil & gas courses at universities and tanning institutes \
- Opportunities for world – class service provider



18. POLLUTION CONTROL EQUIPMENT

Overview

It is estimated that 30-40 percent of India's industrial units produce size able quantities of pollutants. There are about 3 million small – scale units in the country and most of these are not using any pollution control equipment. The Government of India has classified 17 industrial sectors as strong pollutants. India is one of the largest and one of the fastest growing producers of greenhouse gases.

India's pollution control equipment industry is growing at 10 – 12% annually, largely because of government initiatives and a proactive judiciary. Local production is mainly into standard, low- tech equipment. 40% of market demand is met by imports. Germany, UK, Japan, Canada, Australia, Netherlands, and Italy are among the major suppliers.

Until recently, the environmental goods & services sector used to refer to solutions for air, noise & marine pollution, land & water contamination , environmental analysis & consultancy, waste management and recycling. Now it also includes renewable energy technologies such as hydro, wave & tidal power, geothermal, wind & biomass, and emerging low – carbon activities like reduced emissions from the transport & construction sector, nuclear energy, energy management, carbon capture & storage and carbon finance. Some of the important environment sectors include:

- Water Supply & Waste Water Treatment
- Solid Waste Management
- Air & Noise Pollution
- Environmental Goods & Services
- Renewable Energy
- Clean Development Mechanism and Carbon abatement technologies

The total market size is estimated to be over & 6 billion, with Renewable and Energy Efficiency Sectors capturing over 50% of the market share. Indian pollution control equipment industry is unorganized and dominated by small scale industrial firms lacking the resources to invest in research and development. There are a few medium and large Indian engineering companies offering services and equipments as part of turnkey consulting services. The private sector has been investing substantially in environmentally friendly production processes and accounts for nearly 40% of demand in this segment.

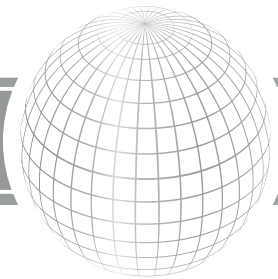
Foreign Direct Investment (FDI)

FDI up to 100% in both manufacture of pollution control equipment and consultancy for integration of pollution control systems is permitted on the automatic route.

19. RETAIL & FRANCHISING

Introduction

The Indian retail industry is the fifth largest in the world, comprising of organized and unorganized sectors. Growing economy, favorable demographics and changes relating to India's consumer class, international exposure, availability of quality retail space, wider availability of products and brand communication are some of the factors that drive the retail and franchising sectors in India. There are lucrative opportunities in franchising in various product and service



categories.

There are various reports which point out to the growth of this sector. Some of them are given below:

According to the report 'Strong and Steady 2011' released by global consultancy and research firm PricewaterhouseCoopers (PwC), India's retail sector which is currently estimated at about US \$ 500 billion, is expected to grow to about US\$ 900 billion by 2014.

Total retail sales in India will grow from US \$ 395.96 billion in 2011 to US \$ 785.12 billion by 2015, according to the Business Monitor International (BMI).

Driven by the growth of organized retail coupled with changing consumer habits, food retail sector in India is set to be more than double to US\$ 150 billion by 2025, according to report by KPMG.

India has also been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US – based global management consulting firm, A T Kearney in its 9th annual Global Retail Development Index (GRDI) 2010.

Organised retail in India is expected to increase from 5 percent of the total market in 2008 to 14 -18 percent and reach US \$ 450 billion by 2015, according to a McKinsey & Company report titled The Great Indian Bazaar: Organised Retail Comes of Age in India.

Government Policies & Reforms

The biggest challenges for the franchise industry is that government has not recognised it as small business facilitator in India. However, on December 16, 2009 the Government of India announced a liberalized policy, which now states that royalty payments/franchise fees (both one time and ongoing) will not need any prior approval from the government authorities including the Reserve Bank of India. In addition, the cap of \$ 2 million on one time fees and 5% on ongoing fee has now been removed.

Foreign Direct Investment (FDI)

Foreign Direct Investment ('FDI') in retail was expressly prohibited in 1997 and was permitted later in 2006, in the form of single brand retailing with up to 51% foreign investment with prior government approval.

Currently, the following are the Government FDI norms:

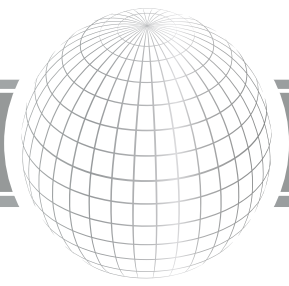
100 percent FDI is permitted under the automatic route for trading companies for cash & carry trading wholesale trading/ wholesale trading.

FDI up to 51 percent under the Government route is allowed in retail trade of Single Brand products

Foreign direct investment (FDI) inflows between April 2000 and January 2011, in single – brand retail trading, stood at US \$ 128.34 million, according to the Department of Industrial Policy and Promotion (DIPP).

Some investments:

Carrefour, the world's second – largest retailer, has opened its first cash – and – carry store in India in New Delhi. Germany – based wholesale company Metro Cash & Carry (MCC) opened six centers in the country.



V Mart Retail Ltd, a medium – sized hypermarket format retail chain, is set to open 40 outlets over the next three years, starting with 13 stores in 2011, in Tier – II and Tier – III cities.

Spar hypermarkets, the global food retailing chain of the Dubai – based Landmark Group, expects to start funding its India expansion beyond 2013 out of its local cash flow in the country. So far, the Landmark Group has invested US \$ 51.31 million in setting up five hypermarkets and plans to pump in another US \$ 51.31 million in to the next phase of expansion.

Opportunities

The retail industry in India is currently growing at a great pace and is expected to go up to US \$ 833 billion by the year 2013. It is further expected to reach US\$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rates, the consumer spending has also gone up and is also expected to go up further. In the last four year, the consumer spending in India climbed up to 75%. As a result, the India retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%.

Since economic liberalization in 1991, India has witnesses a huge growth in the number of new businesses. As a business model, franchising is ideally suited for Indian entrepreneurs. India has a vast pool of entrepreneurial energy and talent, and a pressing need for increasing self- employment and other employment opportunities.

Currently, the franchise market in India is estimated to be \$ 2.7 billion. Franchising in India is growing at an impressive rate of approximately 30% in India. Over 700 franchise systems are already operating in India, and approximately 10 % of these systems are run by international companies. However, these systems still represent a very small percentage of the overall retailing pie. As the Indian market matures to the level of other developed economies, organized retailing will increase its presence as noted above. Franchising is expected to grow its share within retailing until it represents 50% of overall organized retail trade.

20 TELECOMMUNICATION

Overview

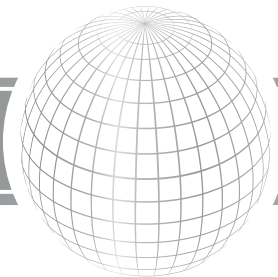
Telecommunication has been recognized the world – over as having a multiplier effect on the economy of a nation, hence vital for the socio – economic development for a nation. Indian telecoms industry is the third largest telecoms market (787.29 million connections as on December 2010) in the world with a growth rate of 45 %, the second largest wireless network in the world (752.20 million wireless connections as on December 2010).

According to the CII Ernst & Young report titled India 2012: Telecom growth continues, revenue from India's telecom services industry is projected to reach US \$ 54 billion in 2012, as against US\$ 31 billion in 2008.

Government Policies & Reforms

Telecommunications is one of the few sectors in India, which has witnessed major structural and institutional reforms since 1991 including liberalizing the telecom sector in the National Telecom Policy resolution of 13th May 1994 and further in 1999.

The government has taken many proactive initiatives to facilitate the rapid growth of the Indian telecom industry. Due to the fast expansion of the sector, the target of 600 million telephones by the end of the 11th year plan, 2007 – 2012 (600 million phone connections with an investment of US\$ 73 billion) was already achieved in February 2010 giving rise



to the expectation that all the targets would be realized regarding this sector.

The government plans to formulate a comprehensive ' National Telecoms Policy 2011' including the recognition of Telecoms as infrastructure and as essential service, encouraging Green Telecoms, steps to accelerate migration from Ipv4 to Ipv6 at the earliest, release of Ipv6 standards by Telecoms Engineering Center for implementation in the country, etc., as per a press release by the Ministry of Communications & Information Technology.

Further, the government plans to take concrete steps towards finalization of ' National Broadband Plan' including strategy for implementation and initiation of steps for roll out of optical fiber.

Foreign Direct Investment (FDI)

Present FDI Policy for the Telecoms sector is as under:

For Basic and cellular, Unified Access Services, National/ International Long Distance, V- Sat , Public Mobile radio trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added telecom services; Foreign Direct Investment (FDI) up to 74 % (including FDI, FII, NRI, FCCBs, ADRs, GDRs, convertible preference shares, and proportionate foreign equity in Indian promoters/ Investing Company) is permitted.

FDI upto 49% is permitted under automatic route and beyond 49% by FIPB approval. ISP (with gateways), end to end bandwidth and Radio Paging Service; FDI upto 74% is permitted subject to licensing and security requirements. FDI upto 49% is permitted under automatic route and beyond 49% by FIPB. ISP without gateway, Infrastructure Providers providing dark fiber, right of way , duct space, tower (Category-I), Electronic Mail and Voice Mail; FDI upto 100% is allowed subject to the conditions 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. Also, subject to the licensing and security requirements, where required.

The total FDI equity inflows in telecom sector was US \$ 1093 million during 2010 – 11 (April – November), more than 8 percent of the approved FDI in the country is related to the telecom sector.

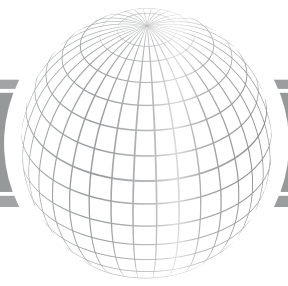


Table 4.4
Foreign Direct Investments in Telecom Sector in India

Years (April-November)	Cumulative FDI in Telecommunications Sector (Million USD)	FDI in Telecommunications Sector (Million USD) (During April-March)
2000-04	1326	1326
2004-05	1455	129
2005-06	2079	624
2006-07	2557	478
2007-08	3818	1261
2008-09	6376	2558
2009-10	8930	2554
2010-11	10023	1093

For Manufacture of Telecom Equipments, FDI upto 100% is allowed through automatic entry rout. Actual Inflow of FDI in Telecom Sector from April 2000 to November 2010 is Rs. 45, 668 corer.

Other policies include:

- Introduction of mobile number portability in a phased manner, starting in the fourth quarter 2008.
- The Department of Telecommunications (DoT) has stated that foreign telecom companies can bid for 3G spectrum without partnering with Indian companies. Only after winning a bid, would they need to apply for unified access service licence (UASL) and partner with an Indian company in accordance with the FDI regulations.

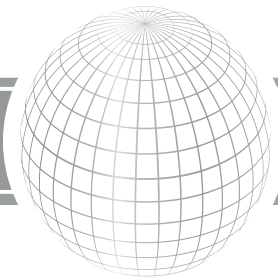
Following areas of telecom sector offer FDI opportunities:

- Ecommerce
- Manufacturing of equipments and components
- Tele-medicine
- Tele- education
- Tele – banking
- Setting up national long distance bandwidth capacity
- Exports of telecom equipments and services

Other promising sub – sectors include:

- WiMax equipment
- Mobile Headsets
- Switching Equipment
- Transmission Equipment
- Tower equipment
- Enterprise Equipment
- Optical Cables
- T&M Instruments
- VSAT

Several market players are planning to upgrade their telecom networks and are planning to source transmission



equipment, switches, fiber communications network, and VSATs.

The Road Ahead

As per the 12th five year plan (2012-2017), the total number of telecom subscribers is projected to grow from the present 780 million to 1,200 million during the five year period. About 25 percent (roughly 300 million) would be 3G/4G subscribers, which would require scaling up the infrastructure. The total investment in the pan- India broadband rollout is expected to be US \$ 16.79 billion, while another US \$ 9 billion will be invested in augmenting the transmission network.

India has created a strong manufacturing base for producing telecom products. Indian firms typically manufacture telecom switches with technical and financial collaboration from foreign firms.

Value – added service providers are growing by the day, and are demanding good infrastructure. E – mail, Internet services, frame relay services, video conferencing, electronic data interchange and voice mail have been accorded value- added services status. These value- added services interface with basic telecom services and increased telecom traffic several fold. With the increased investment in the value – added services, the demand for other switching products such as cellular switches, ISDN switches, gateway switches, ATM switches, is bound to grow sharply.

Broadband Wireless Access/WIMAX growth is expected to increase from current level of 0.25 million to 11 million in 2013 (144% PA). 3G Modem subscribers are expected to grow from the current level of 2 million to 22 million by 2013 (82% PA). EV – DO and WCDMA subscribers are expected to grow from the current level of 3 million to 67 million by 2013 (88% PA).

Some recent major investments in this sector:

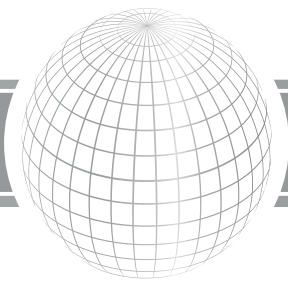
- Norway – based telecom operator Telenor, has bought 67.25 percent in Unitech Wireless
- Federal Agency for State Property Management of the Russian Federation to buy 20 per cent stake in telecom service provider Sistema – Shyam for US \$ 660.1 million.
- Tata Teleservices is planning to invest an additional US \$ 1 billion in its recently- launched GSM service Tata DoCoMo. It had already committed an investment of US \$ 2 billion for the GSM services when it was launched in June 2009.
- Reliance Infratel, the tower subsidiary of Reliance Communications (RCom), will build 56,596 telecom towers by financial year 2010, increasing the total number of towers to 100,000.
- BSNL, India's leading telecom company in revenue terms, will put in about US \$ 1.16 billion in its WiMax project.
- Vodafone Essar will invest US \$ 6 billion in a bid to increase its mobile subscriber base from 40 million at present to over 100 million.

21. INSURANCE

Overview

Insurance in India is a flourishing industry, with several national and international players competing and growing at rapid rates. The period from 2010- 2015 is projected to be the Golden Age' for the Indian insurance industry.

According to the Life Insurance Council, Indian life insurance industry is considered the fifth largest (US \$ 41 billion) life insurance market, and is growing at a rapid pace of 32 – 34 percent annually. According to ICRA, the Indian insurance



industry has resulted in a recorded compounded annual growth rate (CAGR) of 11.5 percent between 2007- 2010 with a total worth of Rs 348 billion (US \$ 7.6 billion).

India's insurance industry will outpace economic growth and is likely to reach \$ 350 - 400 billion in terms of premium income by 2020, making it among the top three life insurance markets, an industry report revealed. India will also be among the top 15 non – life insurance markets by 2020, according to an industry study conducted by the Federation of Indian Commerce and Industry (FICCI) and the US- based Boston Consulting Group. The report points out that penetration of the insurance industry, premium as percentage of the country's gross domestic product (GDP), has increased from 2.3 percent in 2001 to 5.2 percent in 2011.

As per data released by Life Insurance Council, the apex industry body of all life insurance companies in India, total premium collected by the life insurance industry increased 13 percent to US \$ 41.05 billion in calendar year 2010 from US \$ 36.23 billion in 2009. The new business premium of life companies has grown by 28 percent year – on – year (yoy) to US \$ 19.14 billion till December 31 2010 as compared to US\$ 15 billion in 2009.

According to data released by IRDA, the general insurance industry recorded 22.76 per cent year – on – year (yoy) growth in gross premium under written during April – October 2010.

The Indian health insurance market has continued to post record growth in the last two fiscals (2008- 2009 and 2009 – 2010). Moreover, as per the RNACOS estimates, the health insurance premium is expected to grow at a compound annual growth rate (CAGR) of over 25 percent for the period spanning from 2009 – 2010 to 2013- 2014. According to a report published by Yes Bank and an industry body in November 2009, the medical insurance sector would account for US \$ 3 billion in the next three years. Health insurance premium collections were US \$ 1.75 billion in 2009 – 10 compared with US \$ 893.76 million in the previous year.

Government Policies & Reforms

The history of the Indian insurance sector dates back to 1818, when the Oriental Life Insurance Company was formed in Kolkata. A new era began in the India insurance sector, with the passing of the Life Insurance Act of 1912. The Indian Insurance Companies Act was passed in 1928. This act empowered the government of India to gather necessary information about the life insurance and nonlife insurance organizations operating in the India financial markets. The formation of the Malhotra Committee in 1993 initiated reforms in the Indian insurance sector. The Insurance regulatory and Development Authority Act of 1999 brought about several crucial policy changes in the insurance sector of India. It led to the formation of the Insurance Regulatory and Development Authority (IRDA) in 2000.

Foreign Direct Investment (FDI)

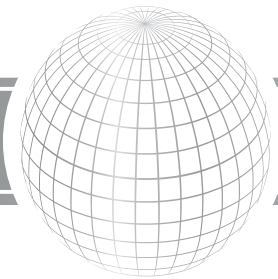
FDI up to 26% is allowed under the automatic route subject to conditions laid down by the Insurance Act of 1999 and IRDA regulations. It has been proposed to increase the FDI limit to 49 percent from the current 26 percent.

22. BANKING

Overview

Banks are the most important source of institutional credit in India and consist of nationalized banks; regional rural banks; co- operative banks; private sector banks including foreign banks.

In the annual international ranking conducted by UK – based Brand Finance Plc, 18 Indian banks have been included in



the Brand Finance Global Banking 500. In fact, State Bank of India (SBI), which is the first Indian bank to be ranked among the Top 50 banks in the world, has improved its position from 36th to 34th, as per the Brand Finance study released on February 1, 2011. The brand value of SBI has enhanced to US\$ 1.12 billion. ICICI Bank, the only other Indian bank in the top 100 club has improved its position with a brand value of US \$ 2.5 billion. Indian banks contributed 1.7 per cent to the total global brand value at US 14.74 billion and grew by 19 per cent in 2011, according to the study.

Nationalized banks, as a group, accounted for 51.2 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 22.5 percent, according to Reserve Bank of India's (RBI) Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks: September 2010. The share of New private sector banks, Old private sector banks, Foreign banks and Regional Rural banks in aggregate deposits was 13.5 per cent, 5.2 percent and 3.1 percent respectively.

With respect to gross bank credit also, nationalised banks hold the highest share of 50.9 per cent in the total bank credit, with SBI and its associates at 23.1 percent and New Private sector banks at 13.7 per cent. Foreign banks, Old private sector banks and Regional Rural banks held relatively lower shares in the total bank credit with 5.2 percent and 2.5 percent respectively.

Bank loans registered a growth of 21.38 percent in 2010 – 2011, while deposit growth stood at 15.84 percent, according to data released by RBI. Analysts and bankers said a growth rate of 18 percent in deposits and 20 percent in credit should be sustainable for banks in 2011-2012.

India's foreign exchange reserves stood at US \$ 308.2 billion as on April 8, 2011, according to the data in the weekly statistical supplement released by RBI.

Indians who live and work abroad have remitted US \$ 55 billion in 2010 as compared to US \$ 49.6 billion in 2009 and have topped the world list in sending money back home, according to World Bank's Migration and Remittances Factbook 2011. With online money transfer services provided by many banks becoming popular, remitting money from any corner of the world is no more problem.

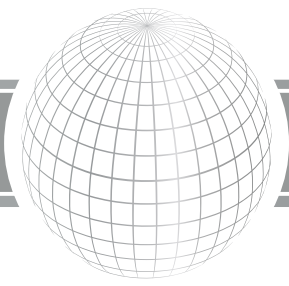
Government Policies & Reforms

The securities and Exchange Board of India (SEBI) will address the concerns of RBI about the high share of portfolio funds in overall capital inflows as they are prone to sudden stops and reversals, while framing the guidelines for allowing foreign individual investors to invest directly in registered mutual funds. The guidelines, which will be in place by mid – May 2011, will also ensure that the subscription process is as simple as possible.

The government would provide an additional US \$ 1.35 billion capital to state – owned banks in financial year 2011 – 2012 to help them maintain at least 8 percent capital adequacy ratio in Tier – I level, said the Union Finance Minister, Shri Pranab Mukherjee while presenting the Union Budget for 2011 – 2012 (April – March) at the lower house of the Parliament.

He has also allowed fund houses to tap foreign nationals for investing in equity schemes. "To liberalise the portfolio investment route, it has been decided to permit Sebi – registered mutual funds to accept subscriptions from foreign investors who meet the KYC (Know Your Customer) requirements for equity schemes," said Shri Mukherjee while presenting the Budget in Parliament. This would enable Indian mutual funds to have a direct access to foreign investors and widen the class of foreign investors in the Indian equity market, he added.

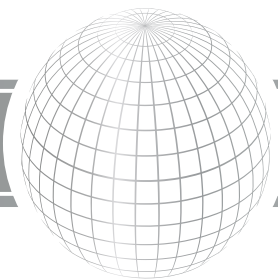
The government presented the Banking Laws (Amendment) Bill 2011 in the Lok Sabha. The bill proposed the following amendments among other recommendations in the existing Banking Law.



- To raise the voting rights of shareholders of nationalised banks to 10 percent from the existing 1 per cent. For private sector banks, the voting rights would be proportionate with investors' shareholding.
- To remove the voting right restriction of 10 percent for private sector banks in the total voting rights of all the shareholders of the banking company.
- To give powers to nationalised banks to issue two additional instruments: bonds, shares and rights issues to be able to get funds from capital market to expand the banking business.
- To grant powers to RBI to impose such conditions as it deems necessary while granting such approval for acquisition of 5 per cent or more share capital of a banking company if it considers necessary.
- To confer power on the RBI to call for information and returns from associate enterprises of banking companies and also to inspect the same.

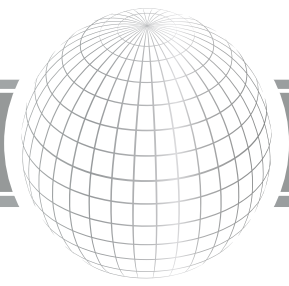
Foreign Direct Investment (FDI)

- FDI and portfolio investment in the public or nationalized banks in India are subjected to a limit of 20% subject to Banking Companies (Acquisition & Transfer of Undertakings) Acts 1970/80 under the Government route. This ceiling is also applicable to the investments in the State Bank of India and its associate banks. FDI limits in the banking sector of India were increased with the aim to bring in more FDI inflows in the country along with the incorporation of advanced technology and management practices. The objective was to make the Indian banking sector more competitive. The Reserve Bank of India governs the investment matters in the banking sector.
- In the private banking sector of India, FDI is allowed up to a maximum limit of 74% of the paid – up capital of the bank, including investments by FIIs and subject to certain conditions. It is under Automatic route up to 49% and under Government route beyond 49% and up to 74%.

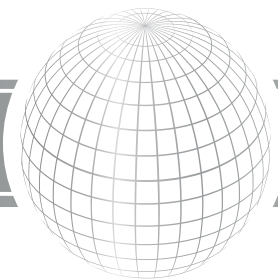


SECTOR – SPECIFIC POLICY FOR FDI

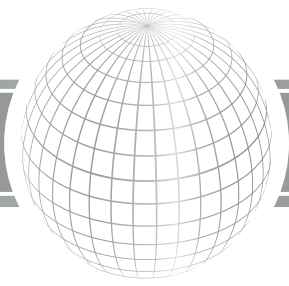
S.No.	Sector/Activity	FDI cap/Equity	Entry Route	Other Conditions
1	Floriculture, Horticulture, Cultivation of vegetable & Mushrooms, development and production of Seeds and planting material, Animal husbandary (including of breeding of dogs), Pisciculture and services related to agro and allied sectors)	100%	Automatic	
2	Tea sector including tea plantations	100%	Government	Subject to divestment of 26% equity in favour of an Indian partner/Indian public within a period of 5 years.
3	MINING			
a	Mining and Exploration of metal and non-metal ores including diamond, gold, silver and precious ores	100%	Automatic	Subject to Mines and Minerals (Development & Regulation) Act, 1957
b	Coal & Lignite mining for captive consumption by power projects, iron & steel and cement units and other eligible activities	100%	Automatic	Mines (Nationalization) Act, 1973
c	Setting up coal processing plants Like washeries	100%	Automatic	Subject to certain sale conditions
d	Mining and mineral separation of titanium bearing minerals & ores, its value addition and integrated activities	100%	Government	Subject to sectoral regulations and the Mines and Minerals (Development and Regulation Act 1957)
4	Defense Industry	26%	Government	Subject to license under the Industries (Development & Regulation) Act 1951 and other sectoral regulations. Discussion paper issued to allow FDI subject to Licensing
5	Power including Generation and transmission of electric energy, Non - Conventional Energy Generation and Distribution, Distribution of electric energy to households, industrial, commercial and other users, Power Trading	100%	Automatic	Subject to the provisions of the Electricity Act 2003
6	AIRPORTS			
a	Greenfield projects	100%	Automatic	Subject to the Aircraft Rules, 1934 as amended from time to time, Civil Aviation Requirements, and Aeronautical Information Circulars as notified by the Ministry



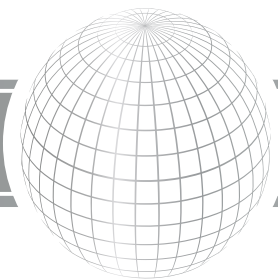
b	Existing projects	100%	Automatic up to 74% Government route beyond 74%	Subject to the Aircraft Rules, 1934 as amended from time to time, Civil Aviation Requirements, and Aeronautical Information Circulars as notified by the Ministry of Civil Aviation
c	Air Transport Services - Scheduled & Non scheduled - Helicopter services/seaplane services requiring DG-CA approval	49% FDI (100% for NRIs) and 74% FDI (100% for NRIs) respectively 100%	Automatic and Automatic up to 49% Government route beyond 49% and up to 74% respectively Automatic	No foreign airlines participation allowed directly or indirectly the equity of an Air Transport Undertaking, allowed to participate in the equity of companies operating Cargo airlines, helicopter and seaplane services
d	Ground Handling Services, Maintenance and Repair organizations; flying training institutes; and technical training institutions	74% FDI (100% for NRIs) and 100%	Automatic up to 49% Government route beyond 49% and up to 74% and Automatic	Subject to sectoral regulations and security clearance
7	Asset Reconstruction Companies	49% of paid up capital of ARC	Government	Any individual investment of more than 10% would be subject to provisions of section 3 (3) (f) of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
8	Banking - Private sector	74% including investment by FIIs	Automatic up to 49% Government route beyond 49% and up to 74%	Subject to RBI guidelines
9	Banking - Public Sector	20% (FDI and Portfolio Investment)	Government	Subject to Banking Companies (Acquisition & Transfer of Undertakings) Acts 1970/80. This ceiling (20%) is also applicable to the State Bank of India and its associate Banks
10	Broadcasting			



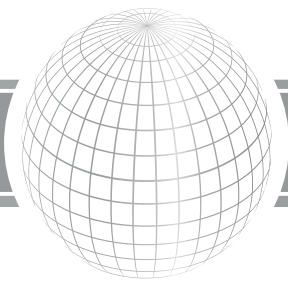
a	FM Radio	20% (FDI, NRI & PIO investments and portfolio investment)	Government	Subject to such terms and conditions as specified from time to time by Ministry of Information and Broadcasting
b	Cable Network	49% (FDI, NRI & PIO investments and portfolio investment)	Government	Subject to Cable Television Net - work Rules, 1994 and other conditions as specified from time to time by Ministry of Information and Broadcasting
c	Direct - to - Home	49% (FDI, NRI & PIO investments and portfolio investment) Within this limit, FDI component not to exceed 20%	Government	Subject to such guidelines/terms and conditions as specified from- time to time by Ministry of Information and Broadcasting
d	FDI limit in (HITS) Broadcasting Service	74% (total direct and indirect foreign investment including portfolio and FDI)	Automatic up to 49% Government route beyond 49% and up to 74%	Subject to such guidelines/terms and conditions as specified from time to time by Ministry of Information and Broadcasting.
e		49% (FDI & FII)	Government	Subject to guidelines issued by Ministry of Information & Broadcasting from time to time
f	Up - linking a Non – News & Current Affairs TV Channel	100%	Government	Subject to guidelines issued by Ministry of Information & Broadcasting from time to time
g	Up-linking a News & Current Affairs TV Channel	26% (FDI & FII)	Government	Subject to the condition that the portfolio investment from FII/NRI shall not be “persons acting in concert” with FDI investor, as defined in the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997
11	Commodity Exchange	49% (FDI & FII)	Government	



12	Construction - development projects including housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure	100%	Automatic	Subject to conditions: development of serviced housing plots, a minimum land area of 10 hectares, construction - development projects, a minimum built - up area of 50,000 sq. mts, combination project. Any one of the above two conditions would suffice. Minimum capitalization of US \$ 10 million for wholly owned subsidiaries and US \$ 5 million for joint ventures with Indian partners. The funds would have to be brought in within six months of commencement of business of the Company etc.
13	Credit Information Companies	49% (FDI & FII)	Government	Subject to the Credit Information Companies (Regulation) Act, 2005 and regulatory clearance from RBI
14	Industrial Parks both setting up and already established Industrial Parks	100%	Automatic	
15	SEZs	100%	Automatic	Subject to the provisions of Special Economic Zones Act 2005 and the SEZ Policy.
16	Insurance	26%	Automatic	Subject to license from the Insurance Regulatory & Development Authority
17	Infrastructure Company in the Securities Market	49% (FDI & FII) [FDI limit of 26 per cent and an FII limit of 23 per cent of the paid - up capital]	Government	Subject to SEBI Regulations
18	Non - Banking Finance Companies (NBFC) (i) Merchant Banking (ii) Under Writing (iii) Portfolio Management Services (iv) Investment Advisory Services (v) Financial Consultancy (vi) Stock Broking (vii) Asset Management	100%	Automatic	Subject to: a. Minimum capitalization norms: US \$ 0.5 million for foreign capital upto 51% to be brought up front, US \$ 5 million for foreign capital more than 51 % and

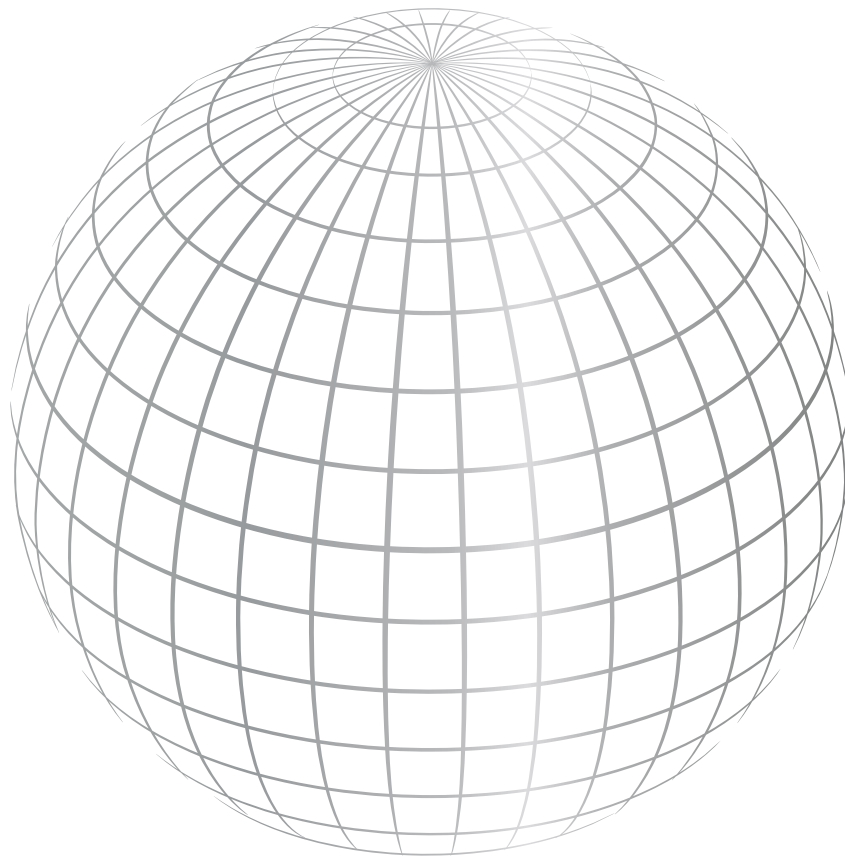


	<p>(vii) Asset Management (viii) Venture Capital (ix) Custodian Services (x) Factoring (xi) Credit Rating Agencies (xii) Leasing & Finance (xiii) Housing Finance (xiv) Forex Broking (xv) Credit Card Business (xvi) Money: Changing Business (xvii) Micro Credit (xviii) Rural Credit</p>			<p>more than 51 % and upto 75% to be brought up front, US \$ 50 million for foreign capital more than 75% out of which US \$ 7.5 million to be brought up front and the balance in 24 months, 100% foreign owned NBFCs with a minimum capitalisation of US \$ 50 million can set up step down subsidiaries for specific NBFC activities, Joint Venture operating NBFCs that have 75% or less than 75% foreign investment can also set up subsidiaries for undertaking other NBFC activities</p> <p>b. Non - Fund based activities: US\$0.5 million to be brought upfront for all permitted non fund based NBFCs irrespective of the level of foreign investment c. NBFC will have to comply with the guidelines of the relevant regulator/ s, as applicable</p>
19	Petroleum & Natural Gas Sector			
a	Exploration activities Of oil and natural gas fields, infrastructure related to marketing of petroleum products and natural gas, marketing of natural gas and petroleum products, petroleum product pipelines, natural gas pipelines, LNG Regasification infrastructure, market study and formulation and petroleum refining in the private sector	100%	Automatic	Subject to the existing sectoral policy and regulatory framework in the oil marketing sector and the policy of the Government on private participation in exploration of oil and the discovered fields of national oil companies
b	Petroleum refining	49%	Government	Subject to Sectoral Policy
20	Print Media			
A	Publishing of Newspaper and periodicals dealing with news and current affairs	26% (FDI and investment by NRIs/PIOs/FII)	Government Government	Subject to guidelines by Ministry of Information & Broadcasting

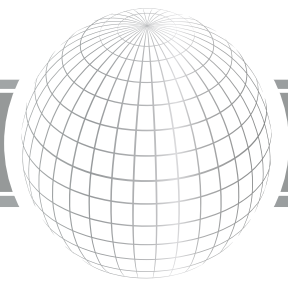


B	Publication of Indian editions of foreign magazines dealing with news and current affairs	26% (FDI and investment by NRIs/PIOs/FII)	Government	Subject to guidelines by Ministry of Information & Broadcasting
C	Publishing! Printing of Scientific and Technical Magazines/special - TV journals/ periodicals	100%	Government	Subject to guidelines by Ministry of Information & Broadcasting
D	Publication of facsimile edition of foreign news- papers	100%	Government	Subject to guidelines by Ministry of Information & Broadcasting
21	Satellites – Establishment and operation	74%	Government	Subject to the sectoral guidelines of Department of Space/ISRO
22	Telecommunication			
A	Telecom services - Basic, Cellular, Unified Access Services, National/ International Long Distance, V Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added Services	74%	Automatic	up to 49% Government route beyond 49% and up to 74%
B	ISP with gateways, ISP 's without gateways, Radio paging, End - to - End bandwidth	74%	Automatic up to 49% Government route beyond 49% and up to 74%	Subject to the conditions that such companies will divest 26% of their equity in favour, of Indian public in 5 years, if these companies are listed in other parts of the world
22	Trading			
A	Cash& Carry Wholesale Trading! Wholesale Trading (including sourcing from MSEs)	100%	Automatic	Discussion paper issue for multi - brand retail trading
B	E - commerce activities	100%	Automatic	
C	Test marketing of such items for which a company has approval for manufacture	100%	Government	
D	Single Brand product trading	51%	Government	
E	Courier services for carrying packages, parcels and other items which do not come within the ambit of the Indian Post Office Act, 1898.	100%	Government	Subject to existing Law i. e. Indian Post Office Act 1898 and exclusion of activity relating to the distribution of letters
23	Manufacturing	100%	Automatic	Subject to the sectoral caps, entry routes and other relevant sectoral regulations and items reserved for the MSE sector.

CHAPTER 5



Investment Climate in India



India's projected high growth rates and its relatively strong financial position vis-a-vis other developing and developed countries after the global financial crisis has made it a preferred destination for foreign investment, as evidenced by a 2010 World Bank Report listing India as one of the top most attractive locations for foreign direct investment (FDI) alongside China. However, India continues to control foreign investment with limits on equity contributions and voting rights, mandatory government approvals, and capital controls.

Although India has slowly implemented a program of economic reform and relaxed many of these constraints, FDI is still prohibited in some sectors or sub-sectors. The GOI grants automatic FDI approvals in many sectors and has gradually expanded the list over time. Foreign investors do not need government licenses or approvals for these sectors and simply notify the Reserve Bank of India (RBI) of their investments. Some sectors still require government approval by the Foreign Investment Promotion Board (FIPB) or the cabinet committee on Foreign Investment (hereinafter, the Government approval route).

Recent changes in FDI policy have inclined toward greater liberalization. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion, and facilitated easy access to foreign technology and FDI. There are several moves for further relaxation of policies in general and certain specific sectors in particular which have been discussed in Chapter 4 during sectoral analysis.

CONVERSION AND TRANSFER POLICIES

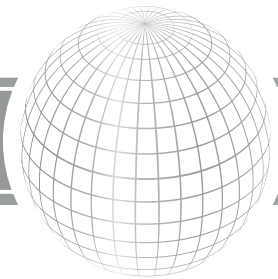
There are no constrictions on remittances for debt service or payments for imported inputs. Profits and dividend remittances are permitted without approval from the Reserve Bank of India (RBI). Income tax payment clearance is required, but there are generally no delays beyond 60 days. RBI approval is required to remit funds from asset liquidation. Foreign partners may sell their shares to resident Indian investors without approval of RBI, provided shares were held on a repatriation basis. GDR/ADR proceeds from abroad may be retained without restrictions except for an end-use ban on investment in real estate and stock markets. FIPB approval is required for converting non-repatriable shares to repatriable ones. Individual professionals including journalists and lawyers are allowed to keep 100 percent of their earnings from consultancy services rendered abroad in foreign currency accounts.

The Indian rupee is fully convertible for current account transactions. Current account transactions are regulated under the Foreign Exchange Management Rules, 2000. Prior RBI approval is required for acquiring foreign currency above certain limits for specific purposes (foreign travel, consulting services, and foreign studies). Capital account transactions are open for foreign investors, subject to clearances. In recent years, with growing foreign exchange reserves, the Indian government has taken additional steps to relax foreign exchange and capital account controls for Indian companies and individuals.

Foreign Institutional Investors (FDI) may transfer funds from rupee to foreign currency accounts and vice versa at the market exchange rate. They may also repatriate capital, capital gains, dividends, interest income, and any compensation from the sale of rights offerings, net of all taxes without approval.

The RBI accords automatic approval to Indian industries for foreign collaboration agreement up to 400 per cent of the net worth of the Indian company. For technology-transfer agreements with foreign companies, Indian firms may remit royalties up to 5 percent for domestic sales and 8 percent for exports without approval; but recurring royalty payments, such as patent licensing are normally limited to eight percent of the selling price over a ten-year period. Royalties and lump sum payments are taxed at 20 to 30 percent. Where technology transfer is not involved, royalty payments for the use of trade marks and brand names are limited to 2 percent on exports and 1 percent on domestic sales. In case of technology transfer, payment of royalty includes the payment of royalty for use of trademark and brand name of the foreign collaborator.

Foreign banks may remit profits and surpluses to their headquarters, subject to the banks compliance with the Banking



Regulation Act, 1949. Banks may also issue credit cards without RBI approval. Banks are permitted to offer foreign currency – rupee swaps without any limits to enable customers to hedge their foreign currency liabilities. They may also offer forward cover to non-resident entities on FDI deployed after 1993.

PERFORMANCE REQUIREMENTS AND INCENTIVES

Plant Location: Industrial undertakings are free to select the location of a project. The earlier restriction prohibiting location of factories near urban settlement was lifted in July 2008. However, projects will still need clearance by the concerned state pollution board and the environment industry.

Employment: There is no requirement to employ Indian nationals. Restrictions on employing foreign technicians and managers have been eliminated. The RBI has raised the remittable per – diem rate to \$ 1000, with an annual ceiling of \$ 200,000 for services provided by foreign workers payable to a foreign firm. Employment of foreigners in excess of 12 months requires approval from the Ministry of Home Affairs.

Incentives: The GOI as well many state governments offer fiscal concessions and incentives including Tax concessions, concessions on VAT, power, employment, interest cost, transport, subsidies on capital investment etc. These concessions vary and are dependent on the state policies as well investment area, sector and investment amount and discussed in Chapter on Taxation.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENTS

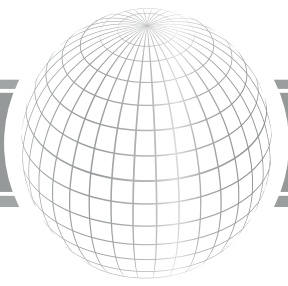
Subject to certain sector – specific restrictions, foreign and domestic private entities may establish and own businesses in trading companies, subsidiaries, joint ventures, branch offices, project offices and liaison offices.

To establish a businesses, various approvals and clearances are required such as; incorporation of the company; registration and allotment of land; permission for land use in case of industry located outside an industrial area; environmental site approval; sanction of power and finance; approval for construction activity and building plan; registration under State Sales Tax Act and Central and State Excise Acts; and consent under Water and Air Pollution Control Acts. Industries such as petrochemicals complexes, petroleum refineries, cement thermal power plants, bulk drugs, fertilizers, dyes, and paper (among others) need to obtain environment clearance from the Ministry of Environment and Forest.

PROTECTION OF PROPERTY RIGHTS

India has generally adequate copyright laws, although enforcement is not so strong. India is a party to the Geneva Convocation for the Protection of Rights of Producers of Phonograms and the Universal Copyright Convention, and a member of the world Intellectual Property Organization (WIPO) and UNESCO. India has not yet ratified and incorporated into domestic law the WIPO Internet treaties. The nodal ministry has reportedly prepared the draft amendments to update the Copyright Act, which still need intra – agency approval before they can be approved by the Cabinet.

Trademark protection is good and meets international standards. The Trade Marks Act (199) and implementing regulations accord national treatment for trademark owners and statutory protection of service marks. In 2005, India expanded 'product patent coverage' to include pharmaceuticals and agro – chemicals. Embedded software may also now be patented. The GOI introduced these changes through presidential ordinance in order to meet on time India's commitments under the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). On March 23, 2005, the Indian parliament approved legislation to make permanent the change to India's patent law that the GOI had introduced by temporary ordinance. The new law extends product patent protection to pharmaceuticals and



agricultural chemicals.

Indian law provides no protection of trade secrets. The GOI in October 2008 put forth draft legislation for public comment. In 2000, India passed legislation (Design Act 2000) to meet its obligations under the TRIPS Agreement for industrial designs. The Indian government in September 2008 announced Design Rules 2008 detailing classification of design to conform to the international system and to take care of the proliferation of design related activities in various fields. India's semiconductor Integrated Circuits Layout Designs Act 2000 is based on standards developed by WIPO.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

The Indian capital market has grown rapidly in recent years, with market capitalization on the Stock Exchanges hitting new highs before the 2008 financial crisis. Spot prices for index stocks are usually market – driven and settlement mechanisms are close to international standards. Private placements of corporate debt have been increasing and high transaction costs and systematic risk have come down with recent regulatory and administrative improvements. Institutional improvements and better regulations have helped to reduce episodes of market manipulation. The market regulators have initiated further policy changes such as allowing all investors to short sell, introducing borrowing and lending of shares, and introducing Real Estate Investment Trusts that would be listed in the market. These measures add depth and breadth to the market making it more liquid than before.

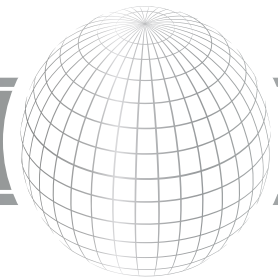
Foreign Institutional Investors (FDI) have a growing presence in India. While FII allowed investing in all securities traded on India's primary and secondary markets, in unlisted domestic debt securities, and in commercial paper issued by Indian companies, the GOI imposes several restrictions that vary by type of investment. FIIs investing in India's capital markets must register with the Securities and Exchange Board of India (SEBI). FII bank deposits are fully convertible and their capital, capital gains, dividends, interest income, and any compensation from the sale of rights offerings, net of all taxes, may be repatriated without prior approval.

The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), both based in Mumbai, use screen – based trading systems. Computers and telecommunications links permit automated buy/ sell transactions. Other regional exchanges and the National Over – the – Counter Exchange in Delhi also have computer – trading systems. The efficiency of the capital market has improved because of the compulsory depository system for most stocks and introduction of derivatives trading by way of stock options and index trading. Together, the NSE and BSE account for 96 percent of total turnover in the stock markets. The NSE and BSE are the world's fourth and fifth largest stock exchanges in terms of volume of transactions.

India's banking industry is split into three categories: 28 public sector banks (70 percent of total assets in the banking system), 23 private bank (21 percent), and 28 foreign banks (about 8.4 percent). All banks operating in India are regulated through the Reserve Bank of India (RBI).

The GOI has been slowly liberalizing external commercial borrowings (ECBs) in the last few years, although in the last two years it has treated it as a source of foreign capital in response to currency and balance of payment needs. It currently allows ECBs under the automatic route up to \$ 500 million for meeting rupee expenditure/ foreign currency expenditure for permissible end – uses for all borrowers. In October 2008, the requirement of a minimum average maturity period of seven years for ECBs of more than US \$ 100 million for rupee capital expenditure by the borrowers in the infrastructure sector was abolished. ECB funds cannot be used for investment in the stock market or real estate.

Takeover regulations require disclosure on acquisition of shares exceeding five percent of total capitalization. Acquisition of 15 percent or more of the voting rights in a listed company triggers a public offer for an additional 20 percent stake as per SEBI's Substantial Acquisition of Share & Takeovers Regulations. Companies may buy back their shares in the market to make inter- corporate investments. From October 2008 consolidation through creeping acquisition up to 5 percent has been allowed to persons holding 55 percent and above but below 75 percent, subject to



the condition that such acquisition can only be via open market purchases in the normal segment, and no consolidation via bulk/ block/ negotiated deal or through preferential allotment would be permitted. RBI and FIPB clearances are required to acquire a controlling stake in Indian companies. The Hostile Takeover Code and the SEBI Takeover Committee regulate hostile takeovers. The Committee makes ad hoc decisions on takeovers, and tend to protect the target firm when takeover bids come from foreign entities.

INDIAN LABOUR RELATIONS & REGULATIONS

Although there are more than 7 million unionized workers, unions represent less than one – seventh of the workers in the organized sector (primarily in state – owned concerns), and less than two percent of the total force. Most unions are linked to political parties. Worker – days lost to strikes and lockouts dropped 50 per cent during the decade 1991 – 2000 from the previous decade.

The payment of wages is governed by the Payment of Wages Act 1936, and the Minimum Wages Act , 1948. Retrenchment, closure and layoffs are governed by the Industrial Disputes Act and the Trade Union Act. Other Labour acts of importance are Plantation Labour Act, Payment of Bonus Act, Payment of Gratuity Act, Workmen's Compensation Act, Factories Act, etc.

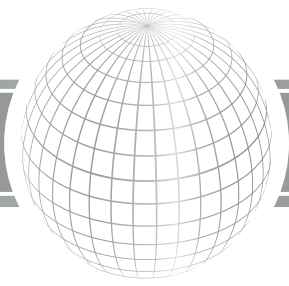
SPECIAL ECONOMIC ZONES FOR FOREIGN INVESTMENTS

The GOI has established several foreign trade zone schemes to encourage export – oriented production. These provide a means to by pass many of the domestic economy's fiscal and infrastructural obstacles that otherwise make Indian goods and services less competitive in international markets. The most recent of the schemes is the Special Economic Zone (SEZ), a duty – free enclave with separately developed industrial infrastructure. Other schemes the Export Processing Zone (EPZ) and the Software Technology Park (STP), both of which are designated areas for export – oriented activities. In addition, India allows an individual firm to be designated an Export Oriented Unit (EOU). All of these schemes are governed by separate rules and granted different benefits. In May 2005, the GOI passed new legislation called the "Special Economic Zones (SEZ) Bill 2005" endorsing its commitment to a long – term and stable policy for the SEZ structure which had previously been only an administrative construct.

Pursuant to controversies over land acquisition for SEZ development projects, the GOI issued new guidelines for SEZ in 2006. Although legislative changes have been introduced through a new Land Acquisition and Rehabilitation Act, some political unrest over SEZ development projects continue.

SEZ are regarded as foreign territory for the purpose of duties and taxes, and operate outside the domain of the custom authorities. SEZ units are allowed to retain 100 percent of their foreign exchange earnings in special Export Earners Foreign Currency Exchange accounts. They are free to sell goods in the domestic tariff area (DTA) on payment of applicable duties. Sales from DTA firms to SEZ units are on par with regular trade transactions and hence eligible to benefit from all export incentive and foreign currency exemption schemes. In addition, many state governments have granted a sales – tax exemption for DTA -SEZ sales. SEZ units are also exempt from the central government's service and excise tax regimes.

SEZ businesses are expected to be a positive foreign exchange earner within five years from the commencement of production. None of the FDI equity caps are applicable to units in SEZs, including those sectors reserved for small – scale industries Land acquisition for SEZs has become a controversial issue because of the allocation of huge blocks of agricultural lands to upcoming SEZs. This has prompted the government to issue guidelines that only uncultivable land can be acquired for SEZ development or if retile land is involved then it should not be more than 10 percent of the total area and adequate compensation and rehabilitation need to be provided. However, the compensation and rehabilitation provisions are not transparent. There is also a land a land ceiling of 5000 hectares on large SEZ which has



become a contentious issue for many SEZ developers.

EPZs are industrial parks with incentives for foreign investors in export- oriented business. STPs are special zones with similar incentives for software exports. EPZ/STP units may import intermediate goods duty- free. The minimum net foreign exchange earnings as a percentage of export by EPZ/STP units is required to be at least 3 percent. EPZ/ STP units may sell up to 50 percent of their level of exports on the domestic market after payment of taxes, with the exception of motor cars, alcoholic beverages, tea, books, and refrigeration units.

EOUs are industrial companies established anywhere in India that export their entire production. They are granted: duty – free import of intermediate goods duty – free ; a ten- year income tax holiday; exemption from excise tax on capital goods, components, and raw materials; and waiver of VAT.

BILATERAL AND MULTILATERAL TRADE AGREEMENTS

Ever since Adam Smith published *The Wealth of Nations* in 1776, the vast majority of economists have accepted the proposition that Free trade among nations improves overall economic welfare. Free trade, usually defined as the absence of tariffs, quotas, or other governmental impediments to International Trade allows each country to specialize in the goods it can produce cheaply and efficiently relative to other countries. Such specialization enables all countries to achieve higher real incomes.

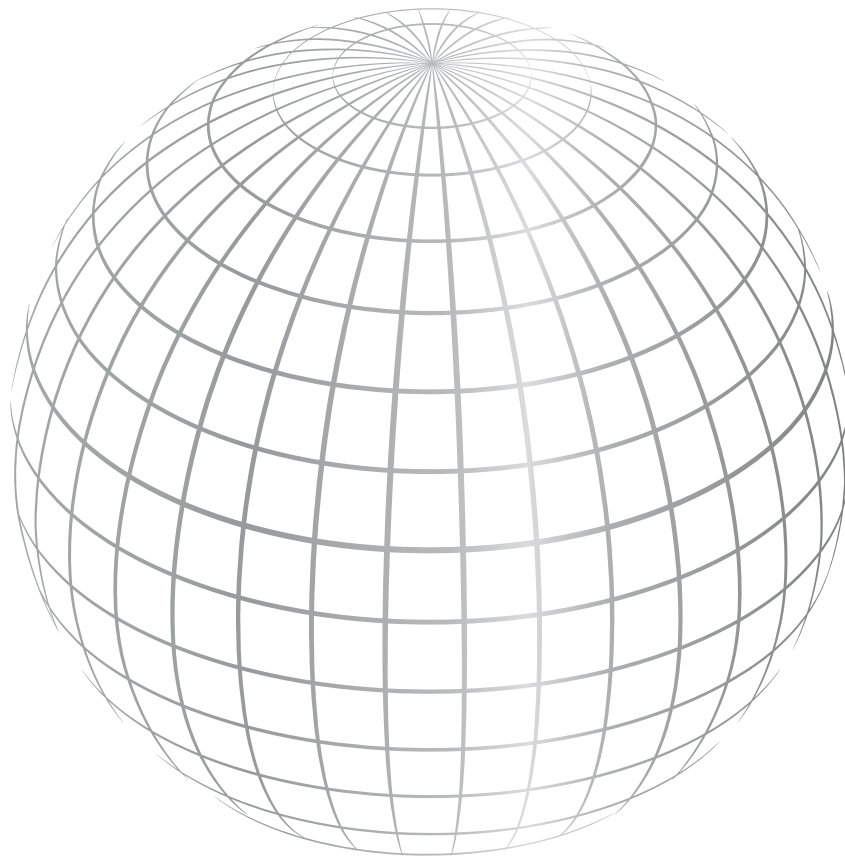
India has entered into several arrangements on multilateral and bilateral basis with several blocks and Countries respectively.

- SAARC Preferential Trade Agreement
- South Asian Free Trade Agreement
- Global System of Trade Preference with 48 countries
- Preferential Trade Agreements with MERCOSUR countries
- Asia pacific Trade Agreement
- Global System of Trade performances

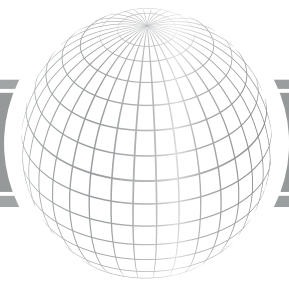
Negotiations under following Blocks are going on

- association of South East Asian Nations (ASEAN) and India Free Trade Agreement (FTA)
- Bay of Bengal Initiative for Multi – Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA) negotiations
- India European Free Trade association (EFTA) Negotiations on broad based Bilateral Trade and Investment Agreement
- In addition to above India has entered into several Trade, CCPA and transit agreements bilaterally with several countries and negotiations are ongoing with many more for new agreements or deepening of existing arrangements for Trade and Services.

CHAPTER 6



Taxation & Incentives



HISTORY

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities. The origin of the word "Tax" is from "Taxation" which means an estimate.

In India, the system of direct taxation as it is known today, has been in force in one form or another even from ancient times. There are references both in Manu Smriti and Arthashastra to a variety of tax measures.

However, it is Kautilya's Arthashastra, which deals with the system of taxation in a real elaborate and planned manner. This well known treatise on statecrafts written sometime in 300 B.C., when the Mauryan Empire was at its glorious upwards move, is truly amazing, for its deep study of the civilisation of that time and the suggestions given which should guide a king in running the State in a most efficient and fruitful manner.

The 19th Century saw establishment of British Rule in India. The British Government felt acute financial difficulties consequent on the Freedom of 1857 and to fill up the treasury, the first Income – tax Act was introduced in February, 1860 by James Wilson who became India's First Finance Member. Thereafter, there were many developments in the field of taxation British India and these were generally modeled on the pattern of taxation system existing in Britain, at the relevant time.

The rapid changes in administration of direct taxes during the last decades, reflect the history of socio- economic thinking in India. From 1922 to the present day changes in direct tax laws have been so rapid that except in the bare outlines, the traces of the Income – tax Act, 1922 can hardly be seen in the Income – tax Act, 1961 (ITA) Act as it stands amended to date.

TAXATION SYSTEM IN INDIA

Taxes in India are of two types, Direct Tax and Indirect Tax. Direct Tax, like income tax, wealth tax, etc. are those whose burden falls directly on the taxpayer. The burden of indirect taxes, like service tax, VAT, etc. Can be passed on to a third party.

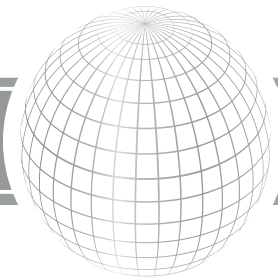
India has a well – developed tax structure with clearly demarcated authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Government can levy), wealth as direct taxes and customs duties, central excise, service tax and Central tax as indirect taxes.

Value Added Tax (VAT), (Sales tax in States where VTA is not yet in force), stamp duty, State Excise, land revenue and tax on professions are levied by the State Governments. Local bodies are empowered to levy tax on properties, octroi and for utilities like water supply, drainage etc.

In the last 10- 15 years, Indian taxation system has undergone tremendous reforms. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India.

Direct taxes are administered by Central Board of Direct Taxes (CBDT) whereas indirect taxes are administered under Central Board of Excise and Customs (CBEC) both under Ministry of Finance. India Financial Year is 1st April to 31st March.

Over the decades the Tax laws both Direct and indirect have become quite cumbersome, complicated, multiple and



complex. It has been the wish and desire of the Government of India to make substantial changes to make it more simple, compliant as well as generate better revenue with less administrative cost and litigation. With these objectives Government of India has made significant move in respect of both Direct taxes by Direct Tax Code (DTC) and Goods and Services tax (GST) for indirect taxes which are under advanced stage of introduction and implementation which is described below.

DIRECT TAXES

Direct Tax code (DTC): India wants to modernize its direct tax laws, mainly its income tax act which is nearly fifty years old and has gone through several amendments, changes, new rules, introduction of sub – rules and many exemptions to the rules which has made the Current ITA very complicated.

The complex structure of the direct tax laws, numerous amendments, the increased cost of compliance and administration and protracted litigation had given rise to numerous concerns among tax payers and administrators. In this backdrop, the Government of India decided to make a comprehensive and much simplified tax regime as per the changing needs of an economy emerging as a global economic power which could help inward investment and domestic business activity to soar. The Direct Taxes Code and the original discussion paper, unveiled on 12 August 2009 to replace the ITA proposed to bring about significant structural changes to direct taxation in India. The strategy set out was to broaden the tax base by way of minimizing exemptions, address the problem of ambiguity in the law which facilitates tax avoidance and finally checking the erosion of the tax base through tax evasion. It was indicated that the measures would result in a higher tax – GDP ratio, enhance GDP growth, improve equity, reduce compliance costs, lower administrative burdens and discourage corruption. Subsequently, after a detailed process of consultation between the Government and all the stake holders, the Direct Taxes Code Bill 2010 was presented by the Indian Finance Minister in the Parliament on 30 August 2010. The Government of India has recently announced that it expects to receive the report of the Standing committee, and finalize the Code for its enactment during 2011 – 2012. This has been a pioneering effort in participative legislation. The code is proposed to be effective from April 1, 2012 to allow taxpayers, practitioners and administrators to fully understand the legislation and adjust to the revised procedures.

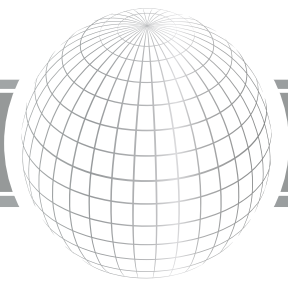
The DTC will replace the ITA, and has been designed to provide a tax code which is more in step with the needs of India's growing economy. "The key objective underlying the proposed enactment of the DTC is to mitigate the uncertainty and complexity created by the existing patchwork of direct tax legislations and annual finance acts. "At the same time, the DTC has not lost sight of the need for flexibility and ensures that amendments-of tax rates, for instance - can be accommodated within the schedules to the DTC. While the DTC has proposed to lower corporate tax rates (considering that there is no levy of surcharge and education cess) simultaneously it incorporates new provisions which will result in broadening the tax base.

Approach of taking Residents and Non - residents:

1. Under DTC, residence based taxation is applied for residents and source based taxation for non - residents.
2. A resident in India will be liable to tax in India on his worldwide income.
3. A non - resident in India will be liable to tax in India only in respect of accruals and receipts in India.
4. The total income of a person will also include the income arising to spouse, minor child and other entities in specified circumstances.

Income Tax Act (ITA): provides for following Direct Taxes.

- Income Tax
- Wealth tax
- Capital Gains Tax



Income Tax for Corporates:

Companies residents in India are taxed on their worldwide income arising from all sources in accordance with the provisions of the ITA. Non - resident corporations are essentially taxed on the income earned from a business connection in India or from other Indian sources.

A company is said to be a resident in India during the relevant previous year if:

1. it is an Indian company
2. if it is not an Indian company then, the control and the management of its affairs is situated wholly in India

A company is said to be non - resident in India if it is not an Indian company and some part of the control and management of its affairs is situated outside

Corporate Tax Rates:

Company	Where taxable income exceeds INR 10 m	Other cases
Domestic Company	32.445% (30% plus surcharge of 5% plus education cess of 3%)	30.9% (30% plus education cess of 3%)
Foreign Company	42.024% (40% plus surcharge of 2% plus education cess of 3%)	41.2% (40% plus education cess of 3%)

Personal income tax is levied by Central Government and is administered by CBDT under the Ministry of Finance in accordance with the provisions of the ITA. Income Tax is all income other than agricultural income levied and collected by the central government and shared with the states. Non - residents are taxed only on income that is received in India or arises or is deemed to arise in India

The tax rates and slabs for FY 2010 - 2011 are as follows:

Tax Rate (*)	Slabs (INR)
NIL	Up to 180,000
10%	180,000 – 500,000
20%	500,000 – 800,000
30%	800,001 and above

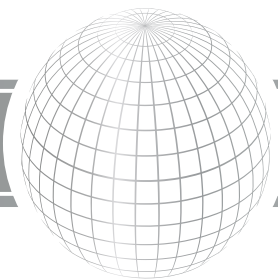
- Education cess @ 3% would also be levied on the above tax rates.

The basic exemption limit for women is INR 190, 000.

The threshold limit for senior citizens (aged 60 year but less than 80 years) is INR 250, 000.

Individuals who are 80 years or more are categorized as "very senior citizens" and have a basic threshold limit of INR 500, 000. This category of tax payers does not have a 10% tax slab though the other slabs and tax rates is in line with individual tax payers.

There are several exemptions/exclusions are also allowed which includes investment in specified securities, medical insurance, by which effectively with tax planning one need not pay tax till an income of approx. INR 315000 (to be increased for senior citizens/ very senior citizens)



Dividend Distribution Tax (DDT)

Domestic companies have to pay DDT at the rate of 15% (plus surcharge 5% and education cess 3%), however, such dividends received are exempt in the hands of recipients.

Minimum Alternative Tax (MAT)

Companies however have to pay for MAT at 18.5% (plus surcharge and education cess) of book profit as tax, if the tax payable as per regular tax provisions is less than 18.5% of its book profits. The current effective MAT rates are as follows:

Company	Where taxable income exceeds INR 10 million	Other cases
Domestic Company	20.01%	19.6%
Foreign Company	19.44%	19.6%

MAT paid by a Company can be carried forward for ten years and set off against income tax payable under the regular provisions of the ITA.

Limited Liability Partnership (LLP) firms are required to pay Alternate Minimum Tax (AMT) similar to MAT.

Special Provisions: There are some special provisions or conditions in case of foreign companies / non residents engaged in or in relation to income from civil construction, turnkey power projects, royalty, operation of aircraft, shipping companies

Wealth Tax

Wealth tax is a charge on net wealth as on 31 March every year (referred to as the valuation date). Wealth tax is charged both on individuals and companies at the rate of 1% of the amount by which the "net wealth" exceeds INR 3 million. The term "net wealth" broadly represents the value of the excess of certain assets over the debts concerned. Assets include guest houses and residential houses, motorcars, jewellery / bullion / utensils of gold and silver, yachts, boats, aircraft, urban land and cash in hand. A debt is an obligation to pay a certain sum of money incurred in relation to those assets which are included in the "net wealth".

Capital Gains Tax

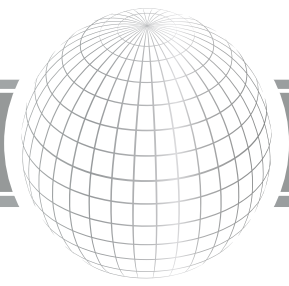
Tax is payable on capital gains on transfer of capital assets.

Long - term Capital Gains Tax is charged if :

- Capital assets are held for more than three years and
- In case of shares, securities listed on a recognized stock exchange in India, units of specified mutual funds, the period for holding is one year.

Long - term capital gains are taxed at a basic rate of 20% (plus surcharge and education cess) . However, long - term capital gains from sale of listed equity shares or units of mutual funds are exempt from tax if the transaction is covered by Securities Transaction Tax. Further, the long term capital gains arising from the sale of listed securities on which Securities Transaction Tax has not been levied is subject to tax @ 10%.

Short - term capital gains are taxed at the normal corporate income tax rate of 30% (plus surcharge and education cess) .



Short - term capital gains arising on the transfer of listed equity shares or units of mutual funds are taxed at a rate of 15% (plus surcharge and education cess).

Long - term and short - term capital losses are allowed to be carried forward for eight consecutive years. Long - term capital losses can be offset against taxable long - term capital gains and short - term capital losses can be offset against both long term and short -term taxable capital gains.

Double Tax Avoidance Treaty (DTAA)

India has entered into DT AA with more than 70 countries including China.

In case of countries with which India has ,DT AA, the tax rates are determined by such agreements. Accordingly, the taxability of a non - resident in India may be restricted or modified.

India and China entered into DTAA which came into force vide Notification: No. GSR331 (E), dated 5-4-1995.

INDIRECT TAXES

Goods & Services Tax (GST) : At present for Excise Duty there is a system of CENV A T and Sales Tax is replaced by VAT. Prior to the introduction of V AT in the Center and in the States, there was a burden of multiple taxation in the pre - existing Central excise duty and the State sales tax systems. Before any commodity was produced, inputs were first taxed, and then after the commodity got produced with input tax load, output was taxed again. This was causing a burden of multiple taxation (i. e. "tax on tax") with a cascading effect. V AT was introduced at the Central level for a selected number of commodities in terms of MODVAT with effect from March 1, 1986 and in a step - by - step manner for all commodities in terms of CENV AT in 2002 – 2003.

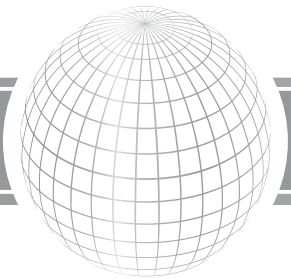
Introduction of V AT in the States has been a more challenging exercise in a federal country like India, where each State, in terms of Constitutional provision, is sovereign in levying and collecting State taxes, who started implementing it beginning April 1, 2005.

Despite this success with V AT, there are still certain shortcomings in the structure of V AT both at the Central and at the State level. The shortcoming in CENV AT and V AT lies in non - inclusion of several other taxes and duties in the overall framework and thus keeping the benefits of comprehensive input tax and service tax set - off out of reach for manufacturers/dealers.

Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as services, and there should be integration of VAT on goods with tax on services at the State level as well, and at the same time there should also be removal of cascading effect of service tax.

Hence, the Government has proposed to replace the present Indirect tax regime by a comprehensive GST to be levied concurrently by the Centre and the States. GST would replace most indirect taxes currently in place such as Central Excise Duty, Service tax, Additional Customs Duty .etc (under Central taxes) and VAT, entertainment tax, entry Tax, other state cess and surcharge etc (States Taxes) . The GST at the Central and at the State level will give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set - off and service tax set - off, subsuming of several taxes in the GST and phasing out of CST.

The main objective of GST would be to become a comprehensive indirect tax reform in the country. GST has been envisaged as a more efficient tax system that would widen the tax base, do away with the multiplicity of taxes and their cascading effects, minimise competitive distortions and encourage better compliance.



Full input credit system would operate for GST paid on procurement of goods and services. The customer being the last person in the supply chain will bear the tax with no right of input tax credit. .

Since the Taxes under consideration are within the jurisdiction of both central Government and State Governments, the decisions on the GST have to be taken in concert with the States with whom the dialogue by Central Government has made considerable progress in the last four years. The Central Government has recently announced that the areas of divergence have been narrowed and as a step towards the roll - out of GST, the Central Government proposes to introduce the Constitution Amendment Bill soon in the Parliament. Work is also underway on drafting of the model legislation for the Central and State GST.

On application of GST, it is expected that the following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:

- (i) Central Excise Duty
- (ii) Additional Excise Duties
- (iii) The Excise Duty levied under the Medicinal and Toiletries Preparation Act (iv) Service Tax
- (v) Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- (vi) Special Additional Duty of Customs: 4% (SAD)
- (vii) Surcharges, and
- (viii) Cesses.

Following State taxes and levies would be, to begin with, subsumed under CST:

- (i) VAT / Sales tax
- (ii) Entertainment tax (unless it is levied by the local bodies)
- (iii) Luxury tax
- (iv) Taxes on lottery, betting and gambling.
- (v) State Cesses and Surcharges relating to supply of goods and services.
- (vi) Entry tax not in lieu of Octroi.

Currently there are following indirect Taxes:

Levied by Central Government

- Customs Duty
- Excise Duty
- Customs Duty
- Service Tax

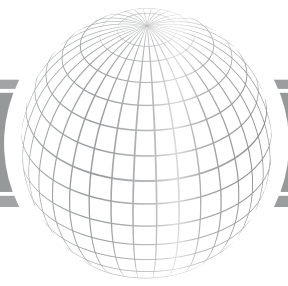
Levied by State Governments and Local Bodies

- Sales Tax/V AT
- Entry Tax
- MunicipaVLocal Taxes
- Other Taxes

Levied by Central Government

Excise Duty

Manufacture of goods in India attracts Excise Duty under the Central Excise act 1944 and the Central Excise Tariff Act 1985. Herein, the term Manufacture means bringing into existence a new article having a distinct name, character, use and marketability and includes packing, labelling etc. or any other process undertaken for making the product marketable.



Most of the products attract excise duties at the rate of 10 %. Besides 3% education cess is also applicable on the aggregate of the duties of excise. Excise duty is levied on ad valorem basis or based on the maximum retail price in some cases. Although the levy is on production, the duty is collected at the time of clearance.

The manufacturer is eligible for availing CENV AT credit of the duty on inputs, capital goods and service tax paid on input services for setting the same off against output duty.

Excise duty is payable on all specified goods unless exempt.

Customs Duty

The levy and the rate of customs duty in India are governed by the Customs Act 1962 and the Customs Tariff Act 1975. Imported goods in India attract basic customs duty, additional customs duty and education cess. The rates of basic customs duty are specified under the Tariff Act. The peak rate of basic customs duty has been reduced to 10 % for industrial goods. Additional customs duty is equivalent to the excise duty payable on similar goods manufactured in India. Education cess at 3% is leviable on the aggregate of customs duty on imported goods.

Customs duty is generally calculated on the transaction value of the goods.

Customs duties in India are administered by Central Board of Excise and Customs under Ministry of Finance and are payable for all imports into India unless exempt. .

Service Tax

Service tax is levied at the rate of 10% (plus 3% education cess on the amount of tax) on certain identified taxable services provided in India by specified service providers. Service tax on taxable services exported are exempt, if payment for such services is received in convertible foreign exchange in India. Service tax is also levied under reverse charge mechanism for import of services from outside India whereby the recipient of service is liable to discharge service tax. The CENV AT Credit Rules allow a service provider to avail and utilize the credit of additional duty of customs/excise duty for payment of service tax. Credit is also provided on payment of service tax on input services for the discharge of output service tax liability.

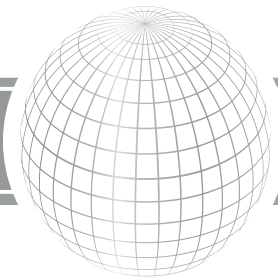
Securities Transaction Tax

Transactions in equity shares, derivatives and units of equity – oriented funds entered in a recognized stock exchange attract Securities Transaction Tax at the following rate:

- Delivery base transactions in equity shares, units of equity - oriented mutual fund - 0.125%
- Non delivery base transactions in the above - 0.025% on sale side Sale of units of an equity - oriented fund to the seller mutual fund - 0.25% Derivatives (futures and options) seller - 0.017% on sale side

Taxes Levied by State Governments and Local Bodies Value Added Tax (VAT) / Sales Tax

On Sale of Goods Value Added Tax (VAT) is applicable from April 01, 2005. VAT is imposed on goods only and not services and it has replaced sales tax. Other indirect taxes such as excise duty, service tax etc. , are not replaced by VAT. VAT is implemented at the State level by State Governments. VAT is applied on each stage of sale with a mechanism of credit for the input VAT paid. There are four slabs of VAT:



0% for essential commodities
 1 % on bullion and precious stones
 4% on industrial inputs and capital goods and items of mass consumption All other items 13.5%
 Petroleum products, tobacco, liquor etc. , attract higher V AT rates that vary from State to State

Central Sales Tax at the rate of 2 % is levied in the case of inter - State sales against prescribed declaration forms. In the absence of such declaration forms, CST is charged at the VAT rate of the state from such inter - state sales are effected. It is expected that CST will be abolished on introduction of GST.

Municipal/Local Taxes

Octroi/ entry tax: While octroi is a municipal levy, some states levy entry tax on the entry of specified goods into a particular state.

Other State Taxes

- Stamp duty on transfer of assets
- Property/building tax levied by local bodies
- Agriculture income tax levied by State Governments on income from plantations
- Luxury tax levied by certain State Government on specified goods
- Professional tax levied on professions, trade
- Entertainment tax on specified large scale entertainment like festivals, shows, tickets etc.
- State Excise Duty: limited to alcoholic beverages

INCENTIVES

Tax Incentives

Government of India provides several fiscal tax incentives of:

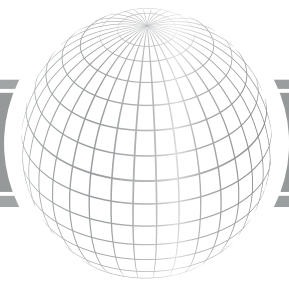
- Corporate profit
- Accelerated depreciation allowance
- Deductibility of certain expenses subject to certain conditions.

These tax incentives are, subject to specified conditions, available for new investment in

- Infrastructure,
- Power generation, transmission & distribution,
- Undertakings developing or operating industrial parks or special economic zones,
- Production or refining of mineral oil,
- Companies carrying on R&D,
- Food processing, Poultry, Dairy & handling, sorting and transporting food grains
- Rural hospitals etc.
- Natural Gas production or distribution
- Engaged in processing or treating bio degradable waste for generating power, bio fertilisers, bio pesticides, bio gas etc.
- Engaged in manufacture in North - East States of India

Central Incentives

Government of India also provide various subsidies based on location most prominent of which are currently available for establishment of industries in 8 States of North East covered under NEIIPP 2007 . Subsidies include:



- Capital Subsidy
- Transport Subsidy
- Excise Duty refund
- Insurance Premium reimbursement
- Interest Subsidy

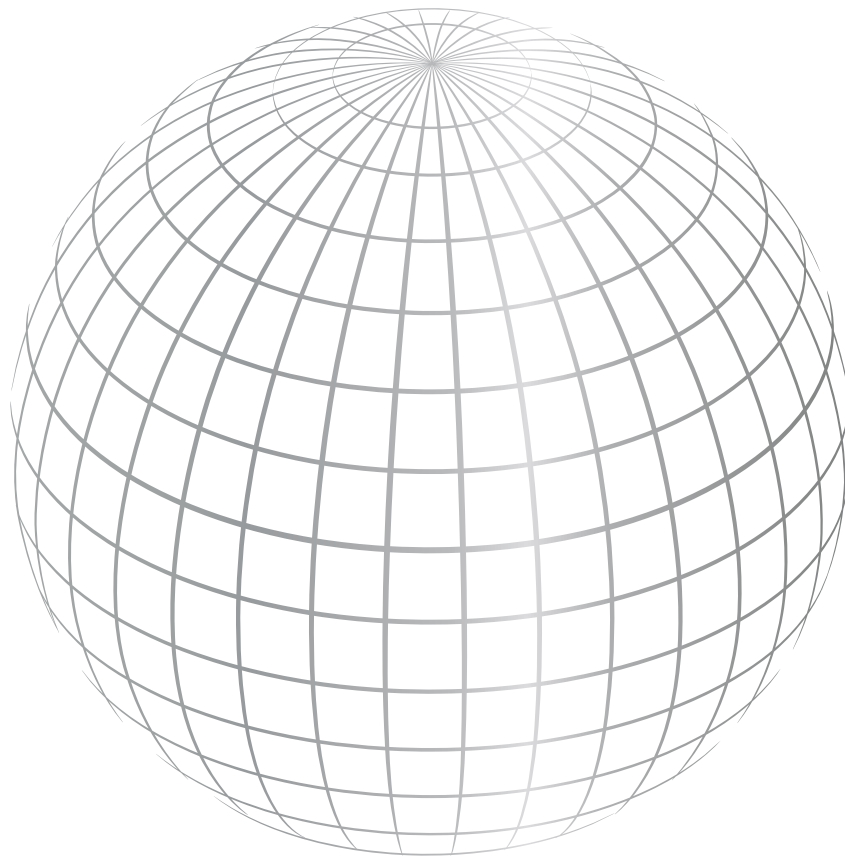
These are attractive subsidies subject to conditions and have been introduced to promote investment in NE Region

State Incentives

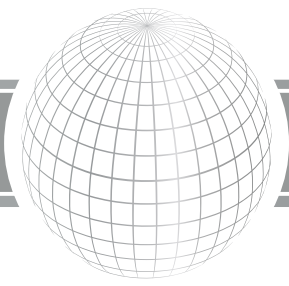
Various State Governments offer incentives for attracting investments in each state. These incentives vary from State to State and may include:

- Land allotment
- Power subsidy
- Interest subsidy
- VAT remission
- Capital subsidy (generally with a cap)

CHAPTER 7



Doing Business in India



FDI CLEARANCE

As discussed earlier, FDI in India can be obtained under the Automatic Route or the Government Route or both. FDI in sectors / activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India. The investors are only required to notify the Regional Office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares of foreign investors.

FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance. Application for all FDI cases should be submitted to the FIPB Unit, Department of Economic Affairs (DEA), Ministry of Finance. Application can be made in Form FC

- IL, which can be downloaded from <http://www.dipp.gov.in>. Plain paper applications carrying all relevant details are also accepted. No fee is payable.

ENTITY REGISTRATION/ APPROVAL/ FORMATION

Various entry options have been stated earlier in Chapter 3. Depending on the entry option chosen, approval would need to be taken from the Indian authorities.

For setting up of a branch office or liaison office, application for permission to open a branch or liaison office is to be made via the Reserve Bank of India by submitting form FNC - 5 to the Foreign Investment and Technology Transfer Department of the Reserve Bank of India.

For opening a project or site office, application may be made on Form FNC - 10 to the regional offices of the Reserve Bank of India. A foreign investor need not have a local partner, whether or not the foreigner wants to hold full equity of the company. The portion of the equity thus not held by the foreign investor can be offered to the public.

In many cases the option would be formation of a Company (Pvt. Ltd. or Public Ltd.) in case of a Greenfield project be it 100% own or a joint venture.

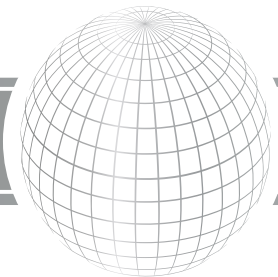
STEPS FOR FORMATION OF A COMPANY

The Companies Act, 1956, is the most important legislative act that empowers the Central Government to regulate the formation, financing, functioning and winding up of companies. The Act contains the mechanism regarding organisational, financial, managerial and all the relevant aspects of a company and empowers the Central Government to inspect the books of accounts of a company, to direct special audit, to order investigation into the affairs of a company and to launch prosecution for violation of the Act to the Central Bureau of Investigation.

The Companies Act is administered by the Central Government through the Ministry of Corporate Affairs and the Offices of Registrar of Companies, Official Liquidators, Public Trustee, Company Law Board, Director of Inspection, etc.

The Registrar of Companies (ROC) controls the task of incorporation of new companies and the administration of running companies.

Under the Companies Act, 1956, the term 'company' means " a company formed and registered under the Act or an existing company i.e. a company formed or registered under any of the previous company laws" .



The basic objectives underlying the law are:

- A minimum standard of good behaviour and business honesty in company promotion and management.
- Due recognition of the legitimate interest of shareholders and creditors and of the duty of managements not to prejudice to jeopardise those interests.
- Provision for greater and effective control over and voice in the management for shareholders.
- A fair and true disclosure of the affairs of companies in their annual published balance sheet and profit and loss accounts.
- Proper standard of accounting and auditing.
- Recognition of the rights of shareholders to receive reasonable information and facilities for exercising an intelligent judgement with reference to the management.
- A ceiling on the share of profits payable to managements as remuneration for services rendered.
- A check on their transactions where there was a possibility of conflict of duty and interest.
- A provision for investigation into the affairs of any company managed in a manner oppressive to minority of the shareholders or prejudicial to the interest of the company as a whole.
- Enforcement of the performance of their duties by those engaged in the management of public companies or of private companies which are subsidiaries of public companies by providing sanctions in the case of breach and subjecting the latter also to the more restrictive provisions of law applicable to public companies.

NAMING AND REGISTERING A BUSINESS

Incorporation of Companies in India is regulated by the Companies Act, 1956 and sets down rules and regulations for the establishment of both public and private companies in India.

For registration or incorporation of a company, the first step that an application has to be filed with concerned Registrar of companies (ROC). Application for registration of a company accompanied by the selected names, Memorandum of Association and Articles of Association and other necessary documents is to be filed with the Registrar of companies of the State in which the company is proposed to be incorporated, with the approval being subject to certain conditions.

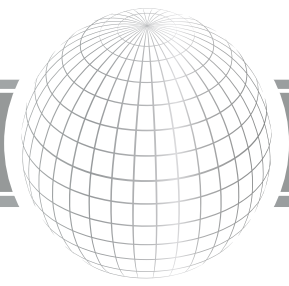
At the time of registration an important decision needed to be made would be the location of the Registered office of the company. All matters relating to Company law will be from the registered office and the relevant corresponding Registrar of Companies in the State where the Registered office is located. It is permitted that the while the registered office is in one State, the manufacturing units, branches and other places of business can be in any other State. However in most cases where single location is required, the registered office and the manufacturing units/place of business is generally located in the same State.

Under the Companies Act, a promoter can form either of the two types of companies, namely a private company or a public company.

A Private Company is one, the articles whereof contains the following restrictions:

- Restricts the minimum paid up share capital to such an amount as may be prescribed but which shall not be less than rupees one lakh;
- Restricts the rights of members to transfer its shares, if any;
- Limits the number of its members to fifty excluding the past or present employees of the company who are members of the company;
- Prohibits any invitation to the public to subscribe for any shares or debentures of the company;
- Does not invite or accept any deposits from. persons other than its members, directors or their relatives

Also, the minimum number of members in a private company is two and such a company must have the words Pvt Ltd' as the last part of its name.



A Public Company, as defined in the Companies Act, has the following features :

- Its shares are freely transferable;
- There is no ceiling on its membership;
- It can invite general public to subscribe to its shares;
- It has a minimum paid up capital of Rs. 5 lakhs or such higher paid up capital as may be prescribed;

Also, the minimum number of members in a public company is seven and such a company must have the word 'Ltd' as last part of its name.

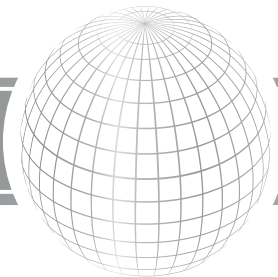
The ROC generally informs the applicant within seven days from the date of submission of the application, whether or not any of the names applied for is available. Once a name is approved, it is valid for a period of six months, within which time Memorandum of Association and Articles of Association together with miscellaneous documents are required to be filed. A company is formed by registering the Memorandum and Articles of Association with the Registrar of Companies. After the duly stamped Memorandum of Association and Articles of Association, documents and forms are filed and the filing duty fees are paid, the ROC scrutinizes the documents and, if necessary, instructs the authorized person to make necessary corrections. The ROC will give the certificate of incorporation after the required documents are presented along with the requisite registration fee, (Annexure A) which is scaled according to the share capital of the company, which will be stated in its Memorandum of association. In case the Memorandum and Articles is to be signed by any of the promoters outside India, then the signatures are required to be made in the presence of Consul of India at the Indian Consulate.

Once the Certificate of Incorporation is issued by the ROC (usually within 5 to 10 days after from the date of filing Memorandum of Association and Articles of Association) , the company officially comes in to existence with effect from the date shown on this certificate. A Private Limited Company can thereafter commence business but a Public Limited Company needs to wait for the Certificate of Commencement to begin operations. As a recent development in incorporation procedures, various forms and applications under Companies Act, 1956 and the Rules and Regulations are being facilitated through e - filing which is projected by Ministry of Company Affairs.

The steps to be followed for registering a private limited or a public limited company are enlisted here.

Steps to be taken to get incorporated a private limited Company:

- Select in order of preference, a few suitable names, not less than four, indicative of the main objects of the company.
- Ensure that the name does not resemble the name of any other company already registered and also does not violate the provisions of Emblems and Names (Prevention of Improper Use) Act, 1950.
- Apply to the concerned ROC to ascertain the availability of a name in the Forms IA of General Rules and along with a fee of Rs. 500/- If the proposed name is not available apply for a fresh name on the same application.
- Arrange for the drafting of the Memorandum and Articles of Association, vetting of the same by the ROC and the printing of the same.
- Arrange for the stamping of the Memorandum and Articles with the appropriate stamp duty.
- Get the Memorandum and Articles signed by at least two subscribers in his/her own hand, fathers name, occupation, address and the number of shares subscribed for and witnessed by at least one person.
- Get the following forms duly filled up and signed and present the same to the concerned ROC with appropriate filing fees:
 - Form 1 (Application or Declaration for incorporation of a company).
 - Form 18 (Notice of the situation of the registered office of the company)
 - Form 32 (Particulars of appointment of Director (s), Manager or Secretary).
 - Duly stamped and signed copies of the Memorandum and Articles of Association.
 - Any agreement referred to in the M & A.
 - Any agreement proposed to be entered into with any individual for appointment as Managing or whole time



Director.

- Name availability letter issued by the ROC.
- Power of Attorney from the subscribers in favour of any person for making corrections on their behalf in the documents and papers filed for registration.

Pay the Registration and Filing Fee by Demand Draft/Bankers Cheque/ electronic mode. Payment up to Rs. 50,000/- can be made through electronic mode only.

- Obtain the Certificate of Incorporation from ROC.
- Additional Steps to be taken for formation of a Public Limited Company.
- Memorandum and Articles to be filled and signed by at least 7 subscribers.
- Minimum no of Directors to be 3 or as specified by Articles.
- Minimum Authorised Capital of the Company shall be Rs. 5,00,000/
- Consent of Directors to act as such.
- Arrange for payment of money by subscribers for the shares subscribed by them.
- File a declaration in Form - 20 duly signed by one of the Directors.
- Obtain the Certificate of Commencement of Business.

REQUIREMENTS FOR FILING ANNUAL RETURNS TO THE R.O.C

As a part of Annual Filing, companies incorporated in India - including subsidiary companies, joint venture companies and others, under the Companies Act, 1956 are required to file the following documents for annual filing along with the e - Forms with the Registrar of Companies (RoC).:

1. Balance - Sheet in Form 23AC to be filed by all companies
2. Profit & Loss Account in Form 23ACA to be filed by all companies
3. Annual Return in Form 20B to be filed by companies having share capital
4. Annual Return in Form 21A to be filed by companies without share cap
5. Compliance Certificate Form 66 to be filed by companies with paid up capital between Rs. 10 above Rs. 1 million.

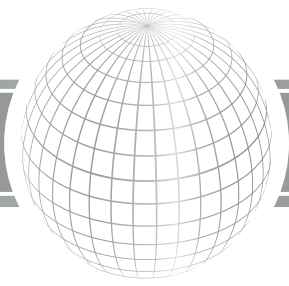
How to do the Annual Returns Filing

The companies can do Annual e - Filing in three different ways:

E - filing Through MCA Portal: The Company representative can upload the e - Forms on the MCA portal through the 'Annual Filing Corner' link (after registering oneself as a user of the portal) at his convenience from his office/ home. This is the most convenient way of e - Filing.

E - filing Through Facilitation Centers: The Company representative can prepare the e - Forms as per guidelines, get them digitally signed by the authorized signatory, copy them in a CD or a pen drive and visit the nearest "Registrar's Front Office" (RFO) . RFO staff will assist in uploading of e Form on MCA portal. For addresses/ phone numbers of RFOs, please refer to the "Facilitation Center" link on the homepage of MCA portal.

E - Filing through Certified Filing Centers (CFC's): The Company representative can also contact any of the Certified Filing Centers (CFCs) for the Annual Filing of e - Forms by paying the service charges to the CFCs. The details about the CFCs are available under the 'Certified Filing Centre' tab on the homepage of MCA Portal.



REGULATORY REQUIREMENTS

Once an entrepreneur has taken all the important decisions relating to starting a business, he/she has to take into account the basic regulatory requirements which are to be followed for setting up and running an organisation.

Legal aspects are an indispensable part of a successful business environment in any country. They reflect the policy framework and the mindset of the Governmental structure of that country. They ensure that every company is functioning as per the statutory framework of the country. Every enterprise must take into account this legal set up while framing the basic aims and objectives of its company. This is because it is necessary for efficient and healthy functioning of the organisation and helps it to know about the rights, responsibilities as well as the challenges that it may have to face.

Companies Act, 1956 is the most important law which regulates all aspects relating to a company. It contains provisions relating to formation of a company, powers and responsibilities of the directors and managers, raising of capital, holding company meetings, maintenance and audit of company accounts, powers of inspection and investigation of company affairs, reconstruction and amalgamation of a company and even winding up of a company.

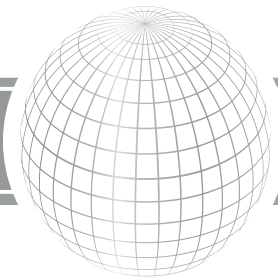
The Environment (Protection) Act, 1986, relates to environment and this Act is the umbrella legislation which authorizes the Central Government to protect and improve environmental quality, control and reduce pollution from all sources, and prohibit or restrict the setting and / or operation of any industrial facility on environmental grounds. According to the Act, the term "environment" includes water, air and land and the inter - relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro - organism and property. Also, separate set of laws and rules for emission of hazardous wastes have been enacted. The Ministry of Environment and Forests (MoEF) , is the nodal agency for regulating all such environmental aspects. The Central Pollution Control Board (CPCB) has developed National Standards for Effluents and Emission under the statutory powers of the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981. These standards have been approved and notified by the Government of India, Ministry of Environment & Forests, under Section 25 of the Environmental (Protection) Act, 1986.

The Indian Contract Act, 1872, is another legislation which regulates all the transactions of a company. It lays down the general principles relating to the formation and enforceability of contracts; rules governing the provisions of an agreement and offer; the various types of contracts including those of indemnity and guarantee, bailment and pledge and agency. It also contains provisions pertaining to breach of a contract.

Industrial Disputes Act, 1947 is the main legislation for investigation and settlement of all industrial disputes. The Act enumerates the contingencies when a strike or lock - out can be lawfully resorted to, when they can be declared illegal or unlawful, conditions for laying off, retrenching, discharging or dismissing a workman, circumstances under which an industrial unit can be closed down and several other matters related to industrial employees and employers.

The Shops and Establishments Act, 1953 was enacted to provide statutory obligation and rights to employees and employers in the unorganised sector of employment, i. e. shops and establishments. It is applicable to all persons employed in an establishment with or without wages, except the members of the employers family. It is a State legislation and each State has framed its own rules for the Act. The State Government can exempt, either permanently or for a specified period, any establishments from all or any provisions of this Act. The Act provides for compulsory registration of shop/ establishment within thirty days of commencement of work and all communications of closure of an establishment within 15 days from its closing. It also lays down the hours of work per day and week as well as the guidelines for spread - over, rest interval, opening and closing hours, closed days, national and religious holidays, overtime work, etc.

The Trade Unions Act, 1926 (TUA) provides for the registration of trade unions of employers and workers, and is



administered by state governments. It confers legal and corporate status on registered trade unions. The Act deals with the registration of trade unions, their rights, their liabilities and responsibilities as well as ensures that their funds are utilised properly. It gives legal and corporate status to the registered trade unions. It also seeks to protect them from civil or criminal prosecution so that they could carry 'on their legitimate activities for the benefit of the working class.

The Contract Labour (Regulation & Abolition) Act, 1970 was enacted to regulate employment of contract labour so as to place it at par with labour employed directly, with regard to the working conditions and certain other benefits.

Contract labour refers to "the workers engaged by a contractor for the user enterprises". These workers are generally engaged in agricultural operations, plantation, construction industry, ports & docks, oil fields, factories, railways, shipping, airlines, road transport, etc.

Other Labour Acts

There are several legislation governing labour and employees welfare and regulations thereon. Most legislation are enacted by Central Government and are same for the Country. However many of the rules are framed by the state Governments and are administered by the respective State Governments which may vary to some extent only. While the Payment of Wages Act 1936 is an Act for overall regulation and governance for wages and the procedure, the Minimum Wages Act, 1948 prescribe the minimum wages to be paid for different section of employment which is being notified from time to time by state governments. Legislations like Plantation Labour Act, Payment of Bonus Act, Payment of Gratuity Act , Workmen's Compensation Act, govern the respective fields of remuneration or welfare relating to that Act.

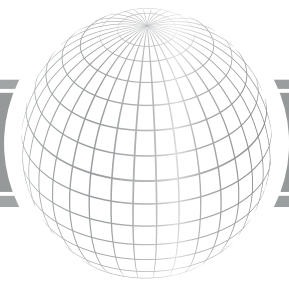
Foreign Exchange Management Act (FEMA), 1999 is an Act to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India. The law relating to exchange control in India has undergone a substantial change in scope, content and approach by the substitution of the Foreign Exchange Regulation Act, 1973 (FERA) by this Act.

The Factories Act, 1948 is the umbrella legislation enacted to regulate the working conditions in factories. According to the Act, a 'factory' means "any premises including the precincts thereof: - (i) whereon ten or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on; or (ii) whereon twenty or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on; but this does not include a mine subject to the operation of the Mines Act, 1952 , or a mobile unit belonging to the armed forces of the union, a railway running shed or a hotel, restaurant or eating place. "

The Mines Act, 1952 contains provisions for measures relating to the health, safety and welfare of workers in the coal, metal, ferrous and oil mines.

According to the Act, the term 'mine' means "any excavation where any operation for the purpose of searching for or obtaining minerals has been or is being carried on and includes all borings, bore holes, oil wells and accessory crude conditioning plants, shafts, opencast workings, conveyors or aerial ropeways, planes, machinery works, railways, tram ways, workshops, power stations, etc. or any premises connected with mining operations and near or in the mining area".

Copyright Act, 1957 is based on the Berne Convention on Copyrights to which India is a party. Additionally, India is also party to the Geneva Convention for the Protection of Rights of Producers of Phonograms and to the Universal Copyright Convention. It is also an active member of the World Intellectual Property Organisation (WIPO) at Geneva.



According to the Copyright Act, 1957, copyright subsists in original literary, dramatic, musical and artistic work, a cinematographic film or a sound recording. Several measures have been adopted to strengthen and streamline the enforcement of copyright protection. These include setting up a Copyright Enforcement Advisory Council, conducting training programs for enforcement officers and setting up special police cells to deal with cases related to infringement of copyright.

The Trade Marks Act, 1999 (TM Act) and the Trade Marks Rules, 2002 governs the law relating to trademarks in India. The TM Act provides for the registration of trademarks for services and goods, including collective marks, and for the assignment and transmission of trademarks. Under the TM Act, a trademark is a mark that can be represented graphically and can distinguish the goods or services of one person from those of others. There is a provision which enables extension of the scope of the permitted use of trademarks as well as prohibition on the use of another entity's trademarks as a part of a corporate name or the name of a business facility as well as for making the trademarks offence cognizable.

The Indian Patents Act, 1970 provides for the grant, revocation, registration, license, assignment and infringement of patents in India. Any infringement of a patent is punishable under the terms of this Act. The Indian Patents Act, 1970 was amended through the amendment of 2005, resulting in India recognizing products as well as process as patentable property.

The Arbitration and Conciliation Act, 1996 is the prime legislation relating to domestic arbitration, international commercial arbitration and enforcement of foreign arbitral awards and also to define the law relating to conciliation and for matters connected therewith or incidental thereto.

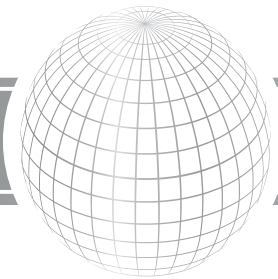
Domestic Arbitration is defined as an alternative dispute resolution mechanism in which the parties get their disputes settled through the intervention of a third person and without having recourse to the court of law. It is a mode in which the dispute is referred to a nominated person who decides the issue in a quasi judicial manner after hearing both sides. Generally, the disputing parties refer their case to an arbitral tribunal and the decision arrived at by the tribunal is known as an award

While, the term international commercial arbitration' means "an arbitration relating to disputes arising out of legal relationships, whether contractual or not, considered as commercial under the law in India and where at least one of the parties is: - (i) an individual who is a national of, or habitually resident in, any country other than India; or (ii) a body corporate which is incorporated in any country other than India; or (iii) a company or an association or a body of individuals whose central management and control is exercised in any country other than India; or (iv) the Government of a foreign country".

The major provisions relating to Arbitration in the Act are that the parties to a present dispute may make an agreement called as the arbitration agreement that instead of going to the court, they shall refer the dispute to arbitration. It provides statutory recognition to conciliation as a distinct mode of dispute settlement.

Conciliation is defined as the process of amicable settlement of disputes by the parties with the assistance of a conciliator. It differs from arbitration in the sense that in arbitration the award is the decision of the third party or the arbitral tribunal, while in the case of conciliation the decision is of the parties which is arrived at with the mediation of the conciliator.

The Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act) governs the activities/practices of all industrial undertakings that are engaged in the production, storage, supply or distribution of articles/goods either directly or indirectly through any of their units or divisions. However, government undertakings do not come under the purview of the MRTP Act. It encompasses within its ambit certain prohibited trade practices such as restrictive trade practices, unfair trade practices and monopolistic trade practice. The regulatory body under the ambit of the MRTP Act is the



Monopolies and Restrictive Trade Practices Commission.

The Consumer Protection Act, 1986 is the most important legislation enacted to provide for effective safeguards to consumers against various types of exploitations and unfair dealings, relying on mainly compensatory rather than a punitive or preventive approach. The Act has set up a three - tier quasi - judicial consumer disputes redressal machinery at the National, State and District levels, for expeditious and inexpensive settlement of consumer disputes. It also postulates establishment of Consumer Protection Councils at the Central and State levels for the purpose of spreading consumer awareness.

INDUSTRIAL LICENSING

With progressive liberalization and deregulation of the economy, industrial license is required in very few cases. Industrial licenses are regulated under the Industries (Development and Regulation) Act 1951. At present, industrial license is required only for the following:

1. Industries retained under compulsory licensing
2. Manufacture of items reserved for small scale sector by larger units
3. When the proposed location attracts locational restriction

The following industries require compulsory license:

1. Alcoholic drinks
2. Cigarettes and tobacco products
3. Electronic aerospace and defense equipment
4. Explosives
5. Hazardous chemicals such as hydrocyanic acid, phosgene, isocyanates and di-isocyanates of hydro carbon and derivatives

Procedure for obtaining an industrial license

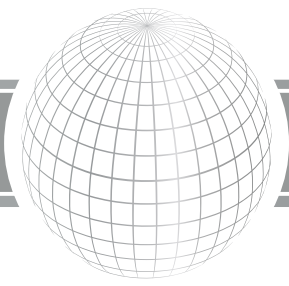
Industrial license is granted by the Secretariat for Industrial Assistance in Department of Industrial Policy and Promotion, Government of India. Application for industrial license is required to be submitted in Form FC - IL to Department of Industrial Policy and Promotion.

SMALL SCALE SECTOR

An industrial undertaking is defined as small scale unit if the capital investment does not exceed Rs. 10 million (approximately \$ 222, 222) . The Government has reserved certain items for exclusive manufacture in the small- scale sector. Non small - scale units can manufacture items reserved for the small scale sector if they undertake an obligation to export 50% of the production after obtaining an industrial license.

LOCATIONAL RESTRICTIONS

Industrial undertakings to be located within 25 kms of the standard urban area limit of 23 cities having a population of 1 million as per 1991 census require an industrial license. Industrial license even in these cases is not required if a unit is located in an area designated as an industrial area before 1991 or non - polluting industries such as electronics, computer software, printing and other specified industries.



ENVIRONMENTAL CLEARANCES

Entrepreneurs are required to obtain Statutory clearances, relating to Pollution Control and Environment as may be necessary, for setting up an industrial project for 31 categories of industries in terms of Notification S. O. 60 (E) dated 27. 1. 94 as amended from time to time, issued by the Ministry of Environment and Forests under The Environment (Protection) Act 1986. This list includes petrochemicals complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilizers, dyes, papers etc. ,

However, if investment in the project is less than Rs. 1 billion (approx \$22. 2 million) , such Environmental clearance is not necessary, except in cases of 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.

Setting up industries in certain locations considered ecologically fragile (e. g. Aravalli Range, coastal areas, Doon Valley, Dahanu etc.) are guided by separate guidelines issued by the Ministry of Environment and Forests.

RBI'S CLEARANCES FOR FOREIGN EXCHANGE TRANSACTIONS

Under the Foreign Exchange Management Act, 1999 (FEMA) which came into force with effect from June 1, 2000, with a view to facilitating external trade and payments and promoting orderly development and maintenance of foreign exchange market in India, foreign exchange transactions are divided into two broad /categories - current account and capital account transactions. Transactions that alter the assets or liabilities, including contingent liabilities outside India, of persons resident in India or assets or liability in India of persons resident outside India are classified as capital account transactions. All other transactions are current account transactions.

Current Account Transactions

Under FEMA, the Government of India, in consultation with the Reserve Bank, is empowered to impose reasonable restrictions on current account transactions. The Government of India has notified the Foreign Exchange Management (Current Account Transactions) Rules, 2000, governing the current account transactions (Notification No. G. S. R. 381 (E) dated May 3, 2000, as amended from time to time) . The Foreign Exchange Management (Current Account Transactions) Rules, 2000 (the Rules) list the current account remittances under three categories.

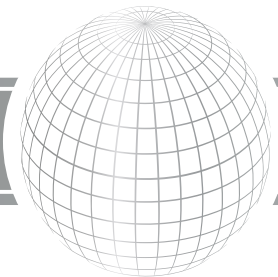
Remittances

- i) which are prohibited are listed in Schedule - I to the Rules;
- ii) which need prior approval of the Government of India are listed in Schedule - II to the Rules; and
- iii) which need prior permission from the Reserve Bank that is, in case the amount of remittance exceeds the stipulated limits are listed in Schedule - III to the Rules.

Under the Foreign Exchange Management (Current Account Transaction) Rules, 2000, powers have been delegated to the Authorised Dealers (ADs) to allow remittances which are of current account in nature, in a hassle - free manner. Under the FEMA, ADs have been classified as under:

- Category - I: ADs which include banks;
Category - II: ADs which include upgraded Full Fledged Money Changers

(FFMCs), Co - operative Banks, Regional Rural Banks (RRBs) and other entities; and
Category - III : ADs which include select financial and other institutions.



In addition, Full Fledged Money Changers (FFMCs), which include Department of Posts and Urban Co - operative Banks and other entities, are also allowed to purchase and sell foreign exchange for the purpose of private and business visits abroad.

Persons resident in India can avail of various facilities made available to them under the FEMA from the Authorised Persons who, thus, become an interface between the Reserve Bank and the common person.

Capital Account Transactions

The Reserve Bank, in consultation with the Government of India, has notified comprehensive, simple and transparent regulations under the FEMA, 1999 for capital account transactions. The regulations distinctly indicate the types of permissible capital account transactions, simplified procedures for undertaking transactions and the returns that have to be submitted to the Reserve Bank. The regulations grant substantial powers to the Authorised Dealer Category - I banks to undertake capital account transactions on behalf of their clients.

BUSINESS FINANCING

Introduction

Business finance refers to the funds and monetary support required by an entrepreneur for carrying out the various activities relating to his/ her business organisation for setting up business, fixed assets, working capital, expansion, investment or trading. In order to successfully operate and expand the business, funds are necessary for promoting and marketing the product; distributing it to the prospective consumers; as well as for managing the firms human resource base.

Indian Financial System

The financial system refers to an institutional arrangement through which the savings in the economy are mobilised and effectively allocated among the ultimate borrowers/ investors. It operates through a network of financial markets and institutions, which are broadly categorised into money market and capital market. The former market deals in short - term funds, while the latter deals in long - term funds. For regulating the operations of money market, the Reserve Bank of India (RBI) is the supreme authority, whereas the Securities and Exchange Board of India (SEBI) supervises the functioning of the capital market.

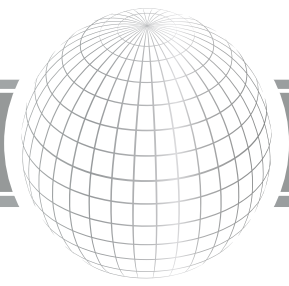
The major constituents of the Indian financial system are:

1. Banks
2. Financial institutions
3. Non - banking financial companies
4. Venture capital companies.
5. Capital market

Banks

Banks are the most important source of institutional credit in India and consist of nationalised banks; regional rural banks; co - operative banks; private sector banks including foreign banks.

The Reserve Bank of India (RBI) is the supreme monetary authority responsible for controlling the banking system in the country. The Banking Regulation Act 1949 provides the legal framework for regulation of the banking sector by the



Reserve Bank of India.

At present, there are 170 scheduled commercial banks in the country, which includes 91 regional rural banks (RRBs), 19 nationalised banks. The public sector banks are the major source of financial assistance to the industrial sector.

They extend credit support to the firms in the form of loans, advances, discounting bills, project financing, term loans, export finance, working capital finance, Term Loan, Equipment Finance, Asset Credit etc.

Regional Rural Banks (RRBs) have been set up in the country on the sponsorship of individual nationalised commercial banks. These banks aim at taking the banking facilities to the doorsteps of rural masses especially in the remote areas. The objective was to provide credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop productive activities in the rural areas.

Foreign banks like Citibank, HSBC, Standard Chartered Bank, etc are the branches of those banks which are incorporated in foreign countries. Most of them perform essentially the same range of services as local banks, except that their focus in terms of product and customers may be different due to their limited branch network.

There are several private sector banks which have reached scale of operation which includes ICICI Bank, HDFC Bank and others.

Financial Institutions

A wide variety of financial institutions have been set up both at the national and the State level, which cater to the diverse financial requirements of the industry. They include all - India development banks; specialised financial institutions; investment institutions; State financial corporations as well as State industrial development corporations.

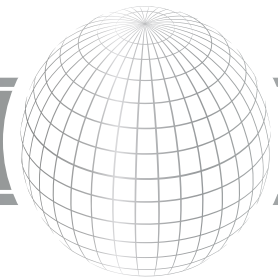
Non - Banking Financial Companies (NBFCs)

Non - banking financial companies (NBFCs) are fast emerging as an important segment of the Indian financial system. They raise funds from the public, directly or indirectly, and lend them to ultimate spenders. Gradually, they are being recognised as complementary to the banking sector due to their customer - oriented services; simplified procedures; attractive rates of return on deposits; flexibility and timeliness in meeting the credit needs of specified sectors; etc. Under the rules, it is mandatory for a NBFC to get itself registered with the RBI as a deposit taking company.

The types of NBFCs are:

- Equipment leasing company: is any financial institution whose principal business is that of leasing equipments or financing of such an activity.
- Hire - purchase Company: - is any financial intermediary whose principal business relates to hire purchase transactions or financing of such transactions.
- Loan company: - means any financial institution whose principal business is that of providing finance, whether by making loans or advances or otherwise for any activity other than its own (excluding any equipment leasing or hire- purchase finance activity)
- Investment Company: is any financial intermediary whose principal business is that of buying and selling of securities.

Venture Capital' is an important source of finance for those small and medium - sized firms, which have very few avenues for raising funds. Although such a business firm may possess a huge potential for earning large profits in the future and establish itself into a larger enterprise. But the common investors are generally unwilling to invest their funds in them due to risk involved in these types of investments. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. In a way, venture capital is a



commitment of capital, or shareholdings, for the formation and setting up of small scale enterprises at the early stages of their life cycle.

Capital Market

Capital market is one of the most important segments of the Indian financial system. It is the market available to the companies for meeting their requirements of the long - term funds. It refers to all the facilities and the institutional arrangements for borrowing and lending funds. In other words, it is concerned with the raising of money capital for purposes of making long - term investments. The Indian capital market is broadly divided into the gilt - edged market and the industrial securities market including Primary market and secondary market.

Primary market (new issue market): - deals with new securities, that is, securities which were not previously available and are offered to the investing public for the first time. It is the market for raising fresh capital in the form of shares and debentures. It provides the issuing company with additional funds for starting a new enterprise or for either expansion or diversification of an existing one, and thus its contribution to company financing is direct. The new offerings by the companies are made either as an initial public offering (IPO) or rights issue.

Secondary market! stock market (old issues market or stock exchange): is the market for buying and selling securities of the existing companies. Under this, securities are traded after being initially offered to the public in the primary market and! or listed on the stock exchange.

However, to list the securities on a stock exchange, the issuing company has to go through set norms and procedures.

Regulatory Framework

In India, the capital market is regulated by the Capital Markets Division of the Department of Economic Affairs, Ministry of Finance. The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i. e. share, debt and derivatives) as well as protecting the interest of the investors. In particular, it is responsible for

- (i) institutional reforms in the securities markets,
- (ii) building regulatory and market institutions,
- (iii) strengthening investor protection mechanism, and
- (iv) providing efficient legislative framework for securities markets, such as Securities and Exchange Board of India Act, 1992 (SEBI Act 1992) ; Securities Contracts (Regulation) Act, 1956; and the Depositories Act, 1996.

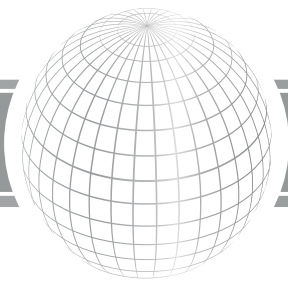
The capital market plays a vital role in fostering economic growth of the country, as it augments the quantities of real savings; increases the net capital inflow from abroad; raises the productivity of investments by improving allocation of investible funds; and reduces the cost of capital in the economy.

Financing

Funding / Financing of the Foreign investment can be done through the following options.

- a) Equity Share capital
- b) Preference Share capital
- c) Fully, compulsorily and mandatorily convertible debentures
- d) External Commercial Borrowings (ECB's)

Indian companies are allowed to raise ECBs from any internationally recognised source such as banks, financial



institutions, capital markets, export credit agencies, suppliers of equipment, foreign collaborators, and foreign equity holders subject to certain end use restrictions. ECBs can be raised from foreign equity holders holding the prescribed minimum level of equity in the Indian borrower company:

- d) Global Depository Receipts (GDR) / American Depository Receipts (ADRs) / Foreign Currency Convertible Bonds (FCCBs)

Foreign investment through GDRs/ ADRs/FCCBs is also treated as FDI. The Indian companies are permitted to raise capital in the international market through the Issue of GDRs/ ADRs/FCCBs, subject to certain restrictions.

- e) Indian Financial System

A company incorporated in India with foreign investment is treated equally with other locally incorporated companies and has, in general, access to the Indian Financial system for financing its activities including through Banks, Financial institutions, Non - banking financial companies, Venture capital companies and the Capital market. However the various components of the Indian financial system. have their own specific priorities and. rules and conditions and they will be governed by this while providing access to financing.

EXCHANGE CONTROL REGULATIONS

Exchange control is regulated under the Foreign Exchange Management Act, 1999 (FEMA) . Under the FEMA, foreign exchange transactions are divided into two broad categories: current account transactions and capital account transactions. Transactions that alter the assets or liabilities outside India of a person resident in India or, in India, of a person resident outside India, are classified as capital account transactions. All other transactions are considered current account transactions, subject to negative list of transactions which are either prohibited or which require prior approval.

An Indian company with foreign investment is treated equally with other locally incorporated companies. Similarly, a foreign - invested Indian company is also treated equally with other locally incorporated companies.

Accordingly, the exchange control laws and regulations for residents also apply to Indian companies with foreign investment.

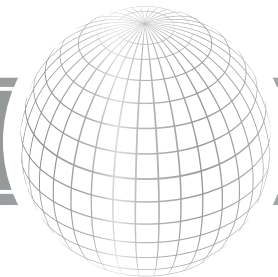
Current Account Transactions

Foreign nationals or Indian citizens who are not permanently resident in India and have been deputed by a foreign company to its office/branch/subsidiary/JV in India are allowed to make recurring remittances abroad for family maintenance of up to 100% of their net salary. Further, up to 100% of the salary of a foreign national or Indian citizen deputed by a foreign company to its Indian office/branch/subsidiary/JV can be paid abroad by the foreign company subject to the foreign national or Indian citizen paying applicable taxes in India.

Prior approval of the RBI is required for acquiring foreign currency for the following purposes:
Consultancy services procured from abroad of over USD 1, 000, 000 per project (USD 10,000,000 in case of infrastructure projects);

Reimbursement of pre - incorporation expenses over the higher of USD 100,000 and 5 % of investment brought into India.

Certain specified remittances are prohibited:
Remittances out of lottery winnings;



Remittance of income from racing, riding, etc. or any other hobby; Remittance for the purchase of lottery tickets, banned or prescribed magazines, football pools, sweepstakes, etc. ;

Payment of commission on exports made towards equity investments in joint ventures/wholly owned subsidiaries abroad of Indian companies;

Payment of commission on exports under the rupee state credit route; Payment related to "Call Back Services" of telephones;

Remittance of dividend by any company to which the requirement of dividend balancing is applicable;

Remittances of interest income of funds held in a non - resident special rupee (account) scheme.

Capital Account Transactions

Capital account transactions can be undertaken only to the extent permitted.

The RBI has prescribed a list of capital account transactions, which include the following:

- Investments overseas by residents;
- Borrowing or lending in foreign exchange;
- Export or import of currency;
- Transfer or acquisition of immovable property in or outside India. Miscellaneous
- Repatriation of Capital
- Foreign capital invested in India is generally repatriable, along with capital appreciation, if any, after the payment of taxes due, provided the investment was on a repatriation basis.

Acquisition of immovable property in India

Generally foreigners are not permitted to acquire immovable property except in certain cases, where the property is required for the business of the Indian branch/ office/ subsidiary of the foreign entity.

Royalties and Technical Know - How Fees

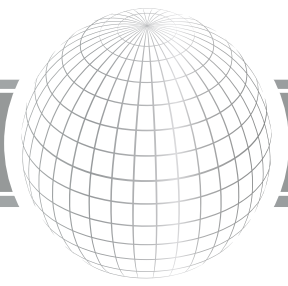
As of 16 December 2009, payments of trademark/ technology royalties have been freed from limits. For any payment relating to a period after 16 December 2009, Indian companies can make payment for trademark/technology royalties without any restrictions under the automatic route.

Dividends

Dividends are freely repatriable without any restrictions (net after Tax deduction at source or Dividend Distribution Tax, if any, as the case may be). Remittances by Branch/Project Office

No prior approval is required for remitting profits earned by Indian branches of foreign companies (other than banks) to their Head Offices outside India. Remittances of winding - up proceeds of a branch/liaison office of a foreign company in India are permitted subject to the authorised dealer's approval. Remittances of winding - up proceeds of a project office of a foreign company in India are permitted under the automatic route subject to the fulfillment of the compliance requirements.

- Repatriation of Interest: Interest on fully, mandatorily & compulsorily convertible
- Debentures are also freely repatriable without any restrictions (net of applicable taxes).
- Remittance of sale proceeds/Remittance on winding up/Liquidation of Companies
-
- (i) Banks can allow the remittance of sale proceeds of a security (net of applicable taxes) to the seller of shares resident outside India, provided the security has been held on repatriation basis, the sale of security has been made in accordance with the prescribed guidelines and NOC / tax clearance certificate from the Income Tax Department has been produced.
- (ii) Banks have been allowed to remit winding up proceeds of companies in India, which are under liquidation, subject to payment of applicable taxes. Liquidation may be subject to any order issued by the court winding up the company or the official liquidator in case of voluntary winding up under the provisions of the ,Companies Act, 1956. Banks shall allow the remittance provided the applicant submits certain documents from Tax



authorities and Statutory Auditors.

Step by Step Guide to starting a business

The following table shows a comprehensive guide to the procedure of starting a business in India:

Table 7.1

No.	Procedure
1	Obtain director identification number (DIN) on - line
2	Obtain digital signature certificate on – line
3	Reserve the company name with the Registrar of Companies ROC online
4	Pay stamp duties online, file all incorporation forms and documents on line and obtain the certificate of incorporation
5	Make a seal
6	Visit an authorized franchise or agent appointed by National Securities Depository Services Limited (NSDL) or Unit Trust of India (UTI) Investors Services Ltd to obtain a Permanent Account Number (PAN)
7	Obtain a tax account number for income taxes deducted at source from the Income Tax Department
8	Register with Office of Inspector, under Shops and Establishment Act
9	Register for VAT online
10	Register for profession tax
11	Register for medical insurance (ESIC)
	Takes place simultaneously with another procedure.

Procedures for Export & Import

These tables list the procedures and documents necessary to import and export a standardized cargo of goods in India.

Table 7.2

Nature of Export Procedures
Documents preparation
Customs clearance and technical control
Ports and terminal handling
Inland transportation and handling
Nature of Import Procedures
Documents preparation
Customs clearance and technical control
Ports and terminal handling
Inland transportation and handling

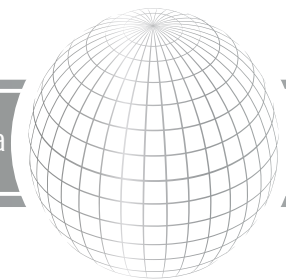
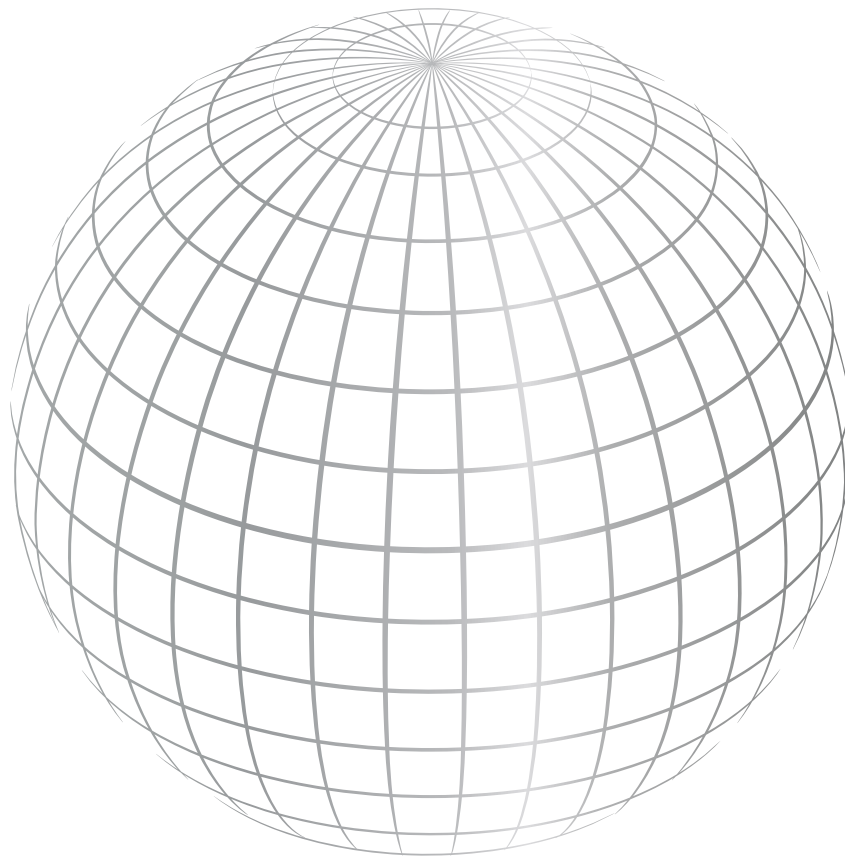


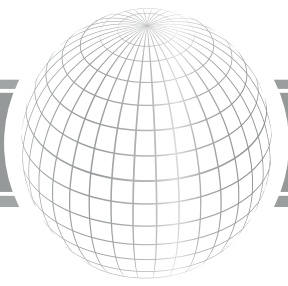
Table 7.3

Exports
Bill of lading
Certificate of Origin
Commercial invoice
Customs export declaration
Inspection report
Packing list
Technical standard/health certificate
Terminal handling receipts
Imports
Bill of lading
Cargo release order
Certificate of origin
Commercial invoice
Customs import declaration
Inspection report
Packing list
Technical standard/health certificate
Terminal handling receipts

CHAPTER 8



Investment regime in Pakistan



Overview of economic and Investment performance

Pakistan is one of the fastest growing economies of the world having touched a GDP growth rate of 8.4% in 2005. Today Pakistan has over 170 million consumers with an ever growing middle class. Foreign Direct investment has risen sharply from an average of \$300 million in the 1990s to over \$3.7 billion in 2008-09. Fiscal deficit has declined from an average 7% of GDP in the 1990s to around 3% in recent years. And FOREX reserves have increased from \$3.22 billion in 2000-01 to \$16.6 billion in June 2012. During 2010-11 Pakistan export reached to a level of US\$ 24.8 billion, which shows Pakistan's merchandise competitiveness in the world market.

The capital markets are being modernized, and reforms have resulted in development of improved infrastructure in the stock exchanges of the country. The Securities and Exchange Commission of Pakistan has improved the regulatory environment of the stock exchanges, corporate bond market and the leasing sector. Whilst the Federal Board of Revenue has facilitated structural reform in tax and tariffs and the State Bank of Pakistan has invigorated the banking sector into high returns on investment.

Gross Domestic Product (GDP) has experienced an upward trend by reaching 4.1 percent in the year ending June 2010 while Foreign Exchange Reserves have surpassed US\$ 17.44 billion whereas remittances are sharply up to a record level of US\$8.5 billion.

TABLE-8.1
Foreign Investment inflows in Pakistan (\$Million)

Year	Greenfield Investment	Privatisation Proceeds	Total FDI	Private Portfolio Investment
2001-02	357.00	128.00	485.00	-10.00
2002-03	622.00	176.00	798.00	22.00
2003-04	750.00	199.00	949.00	-28.00
2004-05	1,161.00	363.00	1,524.00	153.00
2005-06	1,981.00	1,540.00	3,521.00	351.00
2006-07	4,873.20	266.40	5,139.60	1,820.00
2007-08	5,276.60	133.20	5,409.80	19.30
2008-09	3,719.90	0.00	3,719.90	-510.30
2009-10	2,150.80	0.00	2,150.80	587.90
2010-11	1,634.8	0.00	1,634.8	344.5
2011-12	812.6	0.00	812.6	(46.9)
Total	23,583.3	2,805.60	26,388.9	2,748.7

Source: BOI, SBP, Pakistan

Note: Pakistan's Fiscal Year runs from 1st July till 30th June.

Table 8.1 presents trends of investment inflows in Pakistan. The country attracted highest highest FDI of \$ 5.1 billion and 5.4 in 2006-07 and 2007-08 respectively, the highest ever in history of Pakistan. The FDI is badly affected since 2009 due mainly to law and order situation and war against terrorism.

The Government of Pakistan, is actively promoting trade and investment in the country to pave the way for sustained economic growth. Pakistan with positive growth trajectory over the years, despite global economic turmoil, is focusing on development and up gradation of various sectors of economy, like, agriculture, textile, telecom, IT, energy, power, services, construction and housing. These sectors are open for foreign investment with attractive incentives.

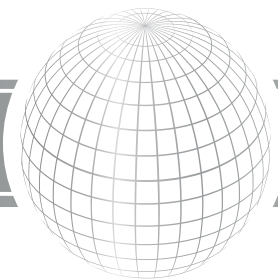


Table 8.2
Sector Wise FDI Inflows (\$ Million)

Sector	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Oil & Gas	80.7	268.2	186.8	202.4	193.8	312.7	545.1	634.8	775.0	740.6	512.2	612.8
Financial Business	(34.9)	3.6	207.4	242.1	269.4	329.2	930.3	1,864.9	707.4	163.0	310.1	56.4
Textiles	4.6	18.5	26.1	35.4	39.3	47.0	59.4	30.1	36.9	27.8	25.3	30.3
Trade	13.2	34.2	39.1	35.6	52.1	118.0	172.1	175.9	166.6	117.0	53.0	25.3
Construction	12.5	12.8	17.6	32.0	42.7	89.5	157.1	89.0	93.4	101.6	61.1	71.8
Power	39.9	36.4	32.8	(14.2)	73.4	320.6	193.4	70.3	130.6	(120.6)	155.8	(84.9)
Chemical	20.3	10.6	86.1	15.3	51.0	62.9	46.1	79.3	74.3	112.1	30.5	96.3
Transport	45.2	21.4	87.4	8.8	10.6	18.4	30.2	74.2	93.2	132.0	104.6	17.4
Communication (IT&Telecom)	NA	12.8	24.3	221.9	517.6	1,937.7	1,898.7	1,626.8	879.1	291.0	(34.1)	(315.3)
Others	140.9	66.2	90.4	170.1	274.0	285.0	1,107.2	764.5	763.4	586.3	416.3	302.5
Total including Pvt. Proceeds	322.4	484.7	798.0	949.4	1,523.9	3,521.0	5,139.6	5,409.8	3,719.9	2,150.8	1,634.8	812.6
Privatisation Proceeds	-	127.4	176.0	198.8	363.0	1,540.3	266.4	133.2	0.0	0.0	0.0	0.0
FDI Excluding Pvt. Proceeds	322.4	357.3	622.0	750.6	1160.9	1980.7	4873.2	5,276.6	3,719.9	2,150.8	1,634.8	812.6

24.2% decrease in Net FDI Including Privatisation Proceeds in 2012-2013 (July-Oct) as compared to 2011-12 (July-Oct).

Note: Pakistan's Fiscal Year runs from 1st July till 30th June. The figures in brackets are in negative.

Table 8.2 above indicates telecommunication, oil and gas, financial business and power sector as the most attractive sector for FDI in Pakistan. In addition to above, mining sector in Pakistan has the great potential, which needs to be tapped through huge investment.

Current investment policies have been tailor made to suit investor needs. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones. The capital markets are being modernized, and reforms have resulted in development of improved infrastructure in the stock exchanges of the country.

Investment in Pakistan is allowed in almost all sector except few and FDI is allowed almost from all countries.

As depicted in the table 8.3, FDI from UK, USA and UAE enjoy lion share in total FDI inflows in Pakistan.

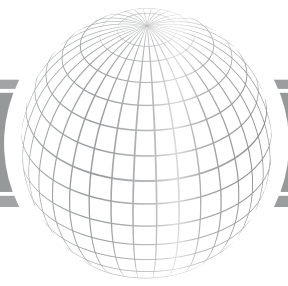


Table 8.3
Country Wise FDI Inflows (\$ Million)

Country	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
USA	92.7	326.4	211.5	238.4	325.9	516.7	913.1	1,309.3	869.9	468.3	238.1	233.0
UK	90.5	30.3	219.4	64.6	181.5	244.0	860.1	460.2	263.4	294.6	207.1	142.8
U.A.E	5.2	21.5	119.7	134.6	367.5	1,424.5	661.5	589.2	178.1	242.7	284.2	36.6
Japan	9.1	6.4	14.1	15.1	45.2	57.0	64.4	131.2	74.3	26.8	3.2	22.8
Hong Kong	3.6	2.8	5.6	6.3	32.3	24.0	32.6	339.8	156.1	9.9	125.6	80.3
Switzerland	3.6	7.4	3.1	205.3	137.5	170.6	174.7	169.3	227.3	170.6	110.5	127.1
Saudi Arabia	56.6	1.3	43.5	7.2	18.4	277.8	103.5	46.2	(92.3)	(133.8)	6.5	(20.2)
Germany	15.5	11.2	3.7	7.0	13.1	28.6	78.9	69.6	76.9	53.0	21.2	28.2
Korea (South)	3.7	0.4	0.2	1.0	1.4	1.6	1.5	1.2	2.3	2.3	7.7	25.4
Norway	41.9	0.1	0.3	146.6	31.4	252.6	25.1	274.9	101.1	0.4	(48.0)	(275.0)
China		0.3	3.0	14.3	0.4	1.7	712.0	13.7	(101.4)	(3.6)	47.4	120.9
Others		76.6	173.9	108.6	369.3	521.9	1,512.2	2,005.2	1,964.2	1,019.6	631.3	290.7
Total including Pvt. Proceeds	322.4	484.7	798.0	949.0	1,523.9	3,521.0	5,139.6	5,409.8	3,719.9	2,150.8	1,634.8	812.6
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24.2% decrease in Net FDI including Pvt. Proceeds in 2012-2013 (July-Oct) as compared to 2011-2012 (July-Oct).

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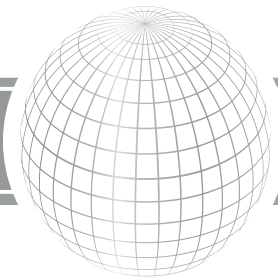
Investment regime in Pakistan is one of the best in the South Asian Region with lucrative incentives has attracted many foreign and local investors who are satisfied with the investment scenario in Pakistan.

Current investment policies have been tailor made to suit investor needs. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones.

Why Invest in Pakistan- Key reasons

Geo-strategic Location

Located in the heart of Asia, Pakistan is the gateway to the energy rich Central Asian States, the financially liquid Gulf States and the economically advanced Far Eastern tigers. This strategic advantage alone makes Pakistan a marketplace teeming with possibilities.



Trained Workforce

A large part of the workforce is proficient in English, hardworking and intelligent. Pakistan possesses a large pool of trained and experienced engineers, bankers, lawyers and other professionals with many having substantial international experience.

Economic Outlook

Pakistan is one of the fastest growing economies of the world having touched a GDP growth rate of 8.4% in 2005. Today Pakistan has over 170 million consumers with an ever growing middle class. Foreign Direct investment has risen sharply from an average of \$300 million in the 1990s to over \$3.7 billion in 2008-09. Fiscal deficit has declined from an average 7% of GDP in the 1990s to around 3% in recent years. And FOREX reserves have increased from \$3.22 billion in 2000-01 to \$11.6 billion in June 2009.

Investment Policies

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Financial Markets

The capital markets are being modernized, and reforms have resulted in development of improved infrastructure in the stock exchanges of the country. The Securities and Exchange Commission of Pakistan has improved the regulatory environment of the stock exchanges, corporate bond market and the leasing sector. Whilst the Federal Board of Revenue has facilitated structural reform in tax and tariffs and the State Bank of Pakistan has invigorated the banking sector into high returns on investment.

Overview of the Investment Policy of Pakistan

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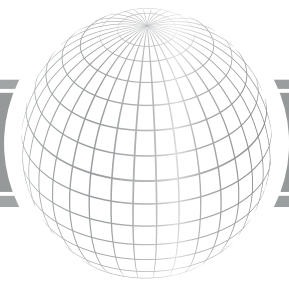
A large part of the workforce is proficient in English, hardworking and intelligent. Pakistan possesses a large pool of trained and experienced engineers, bankers, lawyers and other professionals with many having substantial international experience.

European Union has given Pakistan special trade preference till 31st December 2013, under which 75 items, mushroom, leather and leather products, cotton fabric, readymade garments, knitwear, textile made ups, towels, are given zero rated market access.

In addition as per new bench marks set by EU, Pakistan will be given GSP plus status, under which all products originating from Pakistan would be given zero rated market access. This will provide an ample opportunity to the Pakistani manufacturers to produce maximum exportable goods.

Beside this, Pakistan has signed Free Trade Agreement (FTA) with China and Malaysia. Preferential trade agreement (PTA) has also been signed with Iran and Mauritius. An important agreement of South Asia Free Trade Agreement (SAFTA) can give ample opportunities to the investors to produce their goods for South Asian markets also.

A quick look of investment policy of the Government of Pakistani, can be seen in the following table



Policy Parameters	Manufacturing Sector	Non -Manufacturing Sectors		
		Agriculture	Infrastructure & Social	Services including IT & Telecom Services
Govt. Permission	Not required except 4 specified industries *	Not required except specific licenses from concerned agencies.		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	100%	100%	100%
Minimum Investment Amount (M \$)	No	0.3	0.3	0.15
Customs duty on import of PME	5%	0%	5%	0-5%
Tax relief (IDA, % of PME cost)	50%	50%		
Royalty & Technical Fee	No restriction for payment of royalty & technical fee.	Allowed as per guidelines - Initial lump-sum upto \$100,000 - Max Rate 5% of net sales - Initial period 5 years		
Source: Board of Investment GoP				

* Specified Industries:

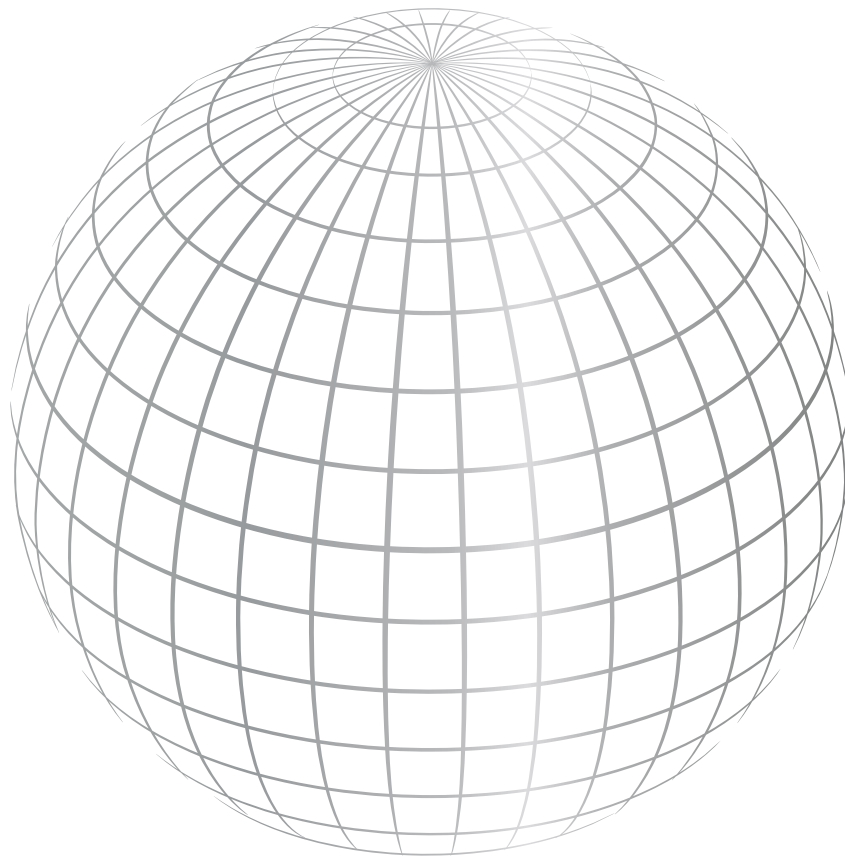
- Arms and ammunitions
- High Explosives.
- Radioactive substances
- Security Printing, Currency and Mint.

No new unit for the manufacturing of alcohol, except, industrial alcohol

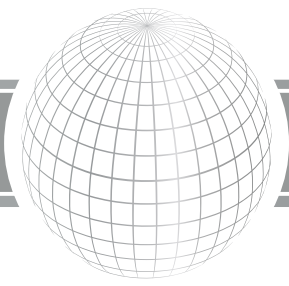
PME= Plant, Machinery and Equipment

IDA= Initial Depreciation Allowance

CHAPTER 9



Leading sectors for Investment in Pakistan



1. Agriculture

It is the source of livelihood of almost 44.7% of the total employed labour force and contributed 21.8% to GDP in 2008-09. Total cropped area in 2008-09 was 23.68 million hectares.

Livestock and poultry

Livestock sector contributed 11.3% to GDP in 2008-09. The value of livestock is 6.1% more than the combined value of major and minor crops. The poultry sector generates employment and income for about 1.5 million people. Poultry meat contributes 19% to the total meat production in the country.

Pakistan earned USD717 million from leather exports in FY09 and a meager USD96 million from meat exports.

Forestry

During the year 2008-09, forests have contributed 83,000 cubic meters of timber and 205,000 cubic meters of firewood, in comparison to 94,000 cubic meters of timber and 267,000 cubic meters of firewood in 2007-08.

Fishery

Fisheries, as a sub-sector, play a significant role in the national economy and towards the food security of the country, as it relaxes the existing pressure on mutton, beef and poultry demand. During July 08 - March 09 the total marine and inland production was estimated to be 490,000M tons and 167,000M tons respectively.

Government policies and investment opportunities

Growth in livestock has been in line with rapidly changing diet patterns across the world. The share of livestock demonstrated growth by representing 52% of the sector in FY2009 as compared to 30% in FY1991 whilst the share of crop sector shrank to 45% from 65% over the same period. The Federal Government has initiated mega projects worth PKR7.1 billion in livestock.

Pakistan is the 4th largest producer of raw milk in the world with growth potential of 20% per annum in exports. Due to lack of technical assistance and inadequate weak infrastructure, only small quantity of raw milk goes into processing.

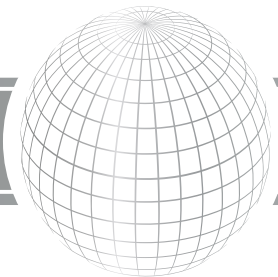
The President inaugurated spring tree plantation drive in February 2010 with a target of planting 58 million saplings. The GoP plans to launch tree plantation campaign twice a year with a view to increase forest cover to 6% of the landmass by 2015.

The idea of corporate farming are emerging in Pakistan, which can be source of attraction for many international companies particularly interested in hybrid seeds, value-addition and increase the perish life of the agriculture production.

2. Automotive sector

Total auto sales in 1HFY2010 increased by 16.37% to 61,021 units from 52,435 units in the same period of last year.

The auto industry was operating at 37% of its installed capacity of 273 thousand units per annum in FY2009 and it is



expected that 20% YoY growth in sales in FY2010 can easily be met through higher production by assemblers utilizing the existing capacity.

Pakistan has the second highest number of CNG-powered vehicles in the world with more than 1.55 million cars and passenger buses, constituting 24% of total vehicles in the country.

Investment in the automotive sector stood at USD70.2 million in July 08 – April 09.

Car sales are related to the interest rate regime functional in Pakistan especially in the small-low and economy segments, whilst purchases in the small-high segment (1300cc and above) are dependent on rising income level and improved living standards

Government policies and opportunities

Pakistan has one of the lowest motorization levels (8 vehicles per 1000 persons) in Asia compared to India (11), Sri Lanka (25), and Malaysia (641) indicating a domestic market rife with growth potential.

Declining interest rates regime adopted by SBP likely to induce increased market for purchases in the small-low income segments.

The removal of 5% excise duty (passed on to the customers) will enhance sales growth. Fall in steel prices has massively reduced the cost of production of vehicles.

Engineering Development Board (EDB) is actively implementing the Auto Industry Development Program (AIDP) to achieve the following targets:

- increase the GDP contribution of the automotive sector to 5.6%,
- boost car production capacity to half a million units
- attract an investment of USD3 billion
- reach an auto export target of USD650 million.

The Provincial Governments are giving special attention towards better public transport vehicles facilities.

3. Electronics & other electrical equipment

In FY2009 the market for electrical appliances and household goods was approximately USD1.4 billion and is expected to increase to USD2.1 billion by 2013.

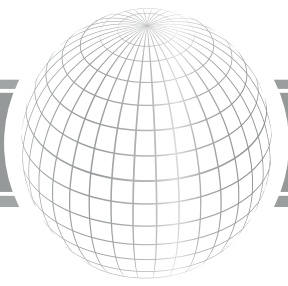
Federal Excise Duty (FED) on electrical appliances increased by 15-20% during FY2008 in order to discourage import of electronic goods, which was withdrawn in FY12. Further in June 2009, GoP reduced duty on mobile phone sets by 50%.

Government policies and opportunities

Export of electronics was approximately USD143 million in 2008 and is projected to increase to USD947 million by 2013.

There is relatively a lower level of penetration of products with 40% of annual television sales concentrated in black-and-white sets and notebooks constituting a mere 20% of computer sales.

At present the middle class consumers, who are unable to purchase imported electronic products due to depreciation



of the Pakistani rupee, are a great source of attraction for companies willing to set up electrical manufacturing units in Pakistan.

Support fund of PKR2.5 billion has been allocated for the engineering sector by the Federal Government in the Trade Policy 2009-10.

GoP established Technology Upgrade and Skill Development Company in 2007 with the aim of further developing the electronics industry focusing on areas such as intellectual property (IP) protection.

In 2009 GoP lifted duty on completely knocked down (CKD) units and reduced and extended a favourable 5% tariff rate on semi-knocked down (SKD) kits for LCD / Plasma television manufacturers in order to curb illegal imports.

Rapid growth is anticipated in mobile subscriber penetration implying progress for the mobile handset market particularly in the lower and middle tiers and under-penetrated semi-urban and rural areas.

Demand prospects from enterprises in the growing sectors of telecom and financial services.

4. Pharmaceutical Sector

In 2008 the health care and pharmaceutical sector contributed 2.2% to the country's GDP, with the pharmaceutical sector solely contributing 1% to GDP (PKR101.6 billion).

Demand for pharmaceutical products has been growing at about 10%-15% a year over the past few years.

There are 455 licensed pharmaceutical manufacturers in Pakistan and 29 multinational companies (MNCs). The remaining demand is met by 212 drug importers.

The sale of pharmaceutical products in international markets has almost doubled during the last five years. The industry is focusing on an Export Vision of USD500 million by 2013. In the meantime, exports are also likely to get a boost due to new regional and global opportunities.

Unlike global trends drug demand does not follow a seasonal pattern and sales remain similar throughout the year because of poor health and environment conditions.

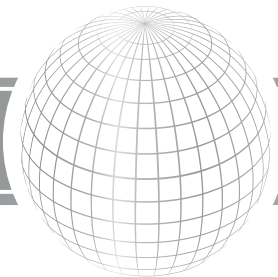
Government policies and opportunities

Rising life expectancy thus consequent rise in number of elderly people and increasing urbanization will stimulate demand for pharmaceutical products and health care services.

Customs duty on import of packing materials has been reduced from 25% / 20% / 10% to just 5%, on import of polyacrylate, piston caps, laminated heat sealable paper, craft paper (wax coated) non-woven fabric and non-woven paper.

Spending on health care and pharmaceutical products are expected to rise from PKR261 billion in 2008 to PKR424 billion in 2013.

The export size of pharmaceutical industry is currently at USD101 million and has the potential to grow many folds to at least USD1,000 million.



5. Industrial and Commercial Machinery

Industrial sector contributed 24.3% to Pakistan's GDP in 2008-09.

The sector mostly imports machinery, usually reconditioned, either in part or full.

Import of plant & machinery currently has the second highest share in Pakistan's import bill, after petroleum products.

Major sectors using industrial machinery are textile, cement, engineering, construction and fertilizer.

Power generating machinery worth USD 1 billion has been imported in Pakistan during FY2012 and FY2011

Pakistan imported textile machinery worth USD 456 million during FY2011.

Government policies and opportunities

Great opportunity exists for manufacturers of power generating units (both industrial & commercial), due to the increasing power shortage currently prevailing in Pakistan.

The engineering industry is ready to present its credentials at the international level in areas including machinery and equipment for chemical and fertilizer plants given the due support by both the GoP and the investors.

The Ministry of Petroleum and Natural Resources is mulling over the proposal for import of used machinery for the up-gradation of refineries.

6. Textile sector

The textile and clothing industry has been the main driver of Pakistan's exports for the past 50 years in terms of foreign currency earnings and job creation.

75% to 80% of total cotton and synthetic production is exported in the form of yarn, fabric, readymade garments, bed wear & made ups.

Pakistan is the fourth largest producer of cotton and third largest user of cotton.

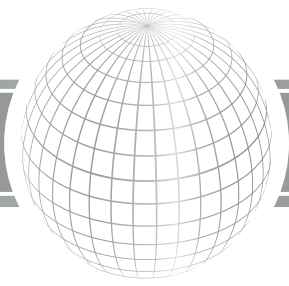
The sector's contribution to total exports has averaged nearly 60% during the last six years and declined to approximately 52% during FY2009. During FY2011, the sector benefitted from recovery in retail sales in advanced economies and increased price differential in local and global yarn prices.

Investment of about USD7.5 billion has been made in the textile industry during the last ten years (1999-2009). Most of the investment was made in textiles sector like in spinning 50%, textile processing 17% and Weaving 15%

Government policies and opportunities

Pakistan has emerged as one of the major cotton textile product suppliers in the world market, with a share of world yarn and cotton fabric trade of about 30% and 8% respectively.

Although the GoP has directed efforts to diversify exports as well as the industrial base, the textile sector remains the



backbone of industrial activity in the country.

The five-year Textile Policy 2009-14 offers approximately USD1 billion cash subsidy to the textile and clothing sector to boost exports. It plans to boost textile exports to USD25 billion from the current USD17.8 billion by 2014.

The package for the sector carries special duty-drawback rates, besides repayment of earlier research support, subsidy on longterm financing loan and development and other subsidies.

The policy focuses on export promotion measures, instead of steps to increase production and revive the industry.

Under the new policy, the textile industry has been exempted from load- shedding. It will also enjoy priority in gas allocation like the fertilizer sector. An amount of PKR2.5 billion has been allocated to make export refinance to be available at 5%.

Most important is the preferential market access by the European Union. The Autonomous Trade preference for 75 products originating from Pakistan is given zero rated market access in EU countries till 31st December 2013. While from 1st January 2014 EU will give zero rated market access to all products originating from Pakistan under GSP plus scheme. This would give Pakistan an added advantage to increase its market share in the developed EU markets, especially in textiles and value added textile and clothing sector.

7. Telecom and IT sector

The telecommunication sector contributes 3% to the country's GDP.

Pakistan IT exports exhibited a 5-year CAGR growth of 35% and amounted to USD184 million in FY2009 against USD154 million in FY2008.

At the end of October 2009 the total tele-density reached 62.4%, with the cellular sector having the leading share followed by Fixed Local Loop (FLL) and Wireless Local Loop (WLL). The cellular companies operating in Pakistan had subscriber base of 120 million at the end of September 2012.

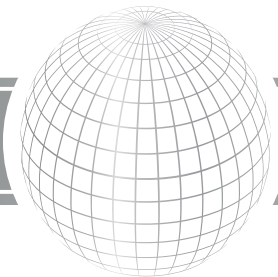
There are currently four major fixed landline operators with Pakistan Telecommunication Company Limited (PTCL) and National Telecommunication Corporation (NTC) being the mature operators, while Nayatel and Worldcall joining in very aggressively.

WLL services are available across Pakistan with seven operators providing services in licensed areas in addition to PTCL operations. There are 2.71 million WLL subscribers as in October 2009. WLL penetration has increased from 0.17% in 2005 to 1.6% in 2009, with subscribers growing at a CAGR of 77% with a balancing gain and drop effect visible in WLL and FLL service subscription for PTCL during FY2009.

Internet usage continues to grow and usage subscription was close to 19 million internet users at the end of 2009, with penetration levels at 10.6%.

Telecom sector continued to attract FDI during FY2009 amounting to USD879 million; 24% of the total FDI Pakistan received during FY2009.

Pakistan is the first country in South Asia to implement Mobile Number Portability (MNP), with over 1.14 million subscribers having availed the facility by June 2009 since the implementation of the MNP project.



Government policies and opportunities

Rate of FED on telecom services is reduced from 21% to 19% in order to reduce the cost of service.

Reduction in loyalty and license fee by PTA and adoption of simple and liberal licensing policies provide ample opportunities.

Availability of new SIM cards at cheap prices will further enhance demand for cell phones, whilst the availability of second hand phones on cheap prices will increase the demand for SIM cards.

Alternative fixed-line providers are starting to offer WLL and longdistance international (LDI) services in competition to PTCL, thus providing opportunities for infrastructure suppliers.

Based on data provided by PTA, there is still room to penetrate further in the low cellular tele-density areas of Baluchistan and N.W.F.P.

Subscription growth in the medium to long-term is likely due to inclination of demographics towards young and middle-aged people amidst increasing urbanization.

There are strong growth prospects in broadband services with only less than half a million broadband subscribers in Pakistan as compared to over 80 million subscribers each in China and US. There are about 19 million users of internet in Pakistan with many still using dial up connections.

Based on growth prospects, Pakistan ranks fourth in terms of broadband internet growth globally, supported by proliferation of local and foreign companies into the market and the decline in tariffs.

8. Power Generating sector

The existing power deficit has been a key blockage for industrial and commercial activities since demand for electricity grew by 6% during FY2003-09 without a corresponding addition to the supply grid during FY1998-08.

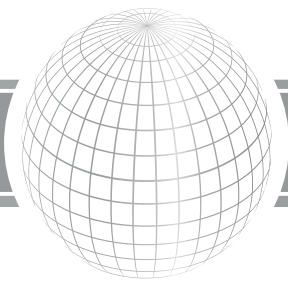
The current supply shortage has been estimated at 6,000MW (megawatts) with frequent electricity outages experienced country-wide. 67% of Pakistan's electricity generation is tilted towards thermal power generation with power plants operating at a reduced capacity utilization of 34% presenting opportunities for investment in plant machinery.

Two nuclear power plants; Karachi Nuclear Power Plant (K-1) and Chashma Nuclear Power Plant unit 1 (C-1) are operational, while construction of a third plant, Chashma Nuclear Power Plant unit 2 (C-2) is also in progress.

In order to meet the current and future energy demand, the GoP is working on different power generation projects which are expected to contribute additional power supply of 9,817MW by the end of 2011-12 to the installed capacity of 19,754MW in 2008-09.

Pakistan Atomic Energy Commission has also been given the task of increasing nuclear power generation capacity to 8,800 MW by the year 2030.

With the expansion of electricity network, the number of consumers also increased from 10.8 million in 1998-99 to 18.5 million consumers in March 2009.



Pakistan enjoys abundance in coal resources estimated at over 185 billion tones, including 175 billion tones identified at Thar, in the Sind province. Only 18% of total gas reserves have been discovered in the last decade.

Zorlu Energy Pakistan Limited has commissioned its first phase (6MW) of a wind power plant in April 2009. Zorlu has indicated that it would like to install an additional 2GW of renewable energy capacity in Pakistan by 2015.

Pakistan's Executive Committee of the National Economic Council has approved infrastructure projects worth USD11.78 billion, including the flagship Diamer-Bhasha hydropower dam. Pakistan and China have also signed a MoU to build the Bunji dam in Astore district in the north with power generation capacity of 7,000MW.

Government policies and opportunities

The rising energy deficit, high vulnerability to oil prices, and expensive energy import options, all have resulted in significant government attention and incentives for the sector.

The GoP is offering increased incentives to the private sector for the task of developing independent power producers (IPPs) and rental power projects (RPP). The GoP guarantees 15% USD IRR along with passage of all expenses to the consumer and 17% for hydel generation. Thus providing predictable multi-year and long term tariff.

Under the remote village electrification program, the Alternative Energy Development Board (AEDB) plans to electrify 7,874 remote off-grid villages in Sind and Baluchistan.

In order to meet enhanced gas requirements, The GoP has been providing improving economic terms for investment in oil and gas exploration through its petroleum policies.

Further, in order to tap the mass reservoir of coal reserves at Thal, GoP is considering offering USD indexed IRR of 20-21%.

AEDB is actively working to install 103 micro hydro power plants in Chitral as well as other locations in the Northern areas.

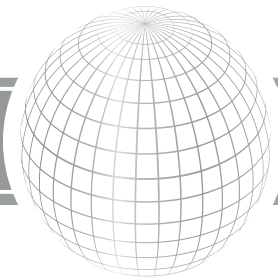
The Asian Development Bank (ADB) has approved a USD810 million multi-tranche financing facility for the power sector.

9. Transportation sector

The quality of roads generally improved in 2008. The cause has been facilitated by National Highway Authority's (NHA) plan to invest USD5.36 billion in the sector. This plan benefitted from a USD900 million multi-tranche loan from the ADB.

The cargo exports grew by an all time high in 2007-08 and the first seven months of the FY2009 showed growth in exports handled at Karachi Port Trust of 44.3%.

In 2007-08 Port Qasim handled record cargo-volume of 26.4 million tons, showing an impressive growth of around 9% over the previous corresponding period.



Government policies and opportunities

Railways:

Major development schemes include track renewal of 240 km of rails and 220 km of sleepers planned for main line.

100 CKD wagons received from China were designated to be manufactured in Pakistan Railways Workshop in Moghalpura in 2009, thus completing the scheme for Procurement / Manufacture of 1,300 high capacity wagons. 400 old coaches are rehabilitated in fiscal year 2009-10.

Airports:

Civil Aviation Authority (CAA) will develop the International Airport in Islamabad and make it operational by the end of 2011, which is expected to cost PKR37 billion.

CAA will construct the New Gwadar International Airport by the end of December 2011, with the total estimated cost of PKR7.5 billion being financed under the Public Sector Development Programme.

To enhance the trade route internationally with Afghanistan and central Asian countries, the CAA has planned to upgrade the Peshawar International Airport in the near future.

Roads:

NHA plans to launch a Motorway Advisory Radio (MAR) system during financial year 2009-10 under the Public-Private Partnership. This system will provide updated information regarding fog / low visibility of areas and will suggest precautionary measures for traffic congestion and incidents / accident related information.

The National Trade Corridor (NTC) initiative envisages an investment program of PKR325 billion, to be completed by 2017-18. This step is expected to enhance National Highway Authority's revenue to approximately PKR543 million during financial year 2009-10.

Long-anticipated modernization work will start on the Karachi Circular Railway in 2010 and is plausible to be completed by 2014.

10. Construction sector

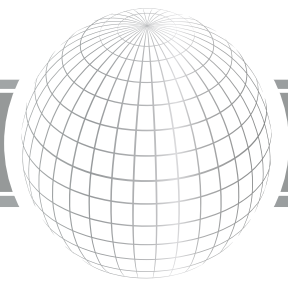
Residential and Commercial construction

The construction industry of Pakistan had a total value of approximately USD 3.6 billion in 2009 and this value is expected to rise to around USD4.2 billion by 2012.

Residential construction is being carried out under the Prime Minister's 'Mega Housing Scheme' which involves the construction of one million low cost houses per year.

On GoP's invitation international companies from Germany, Canada, Iran, Italy and Malaysia have participated in the construction sector, in order to facilitate execution and completion of the GoP's mega housing scheme.

The construction industry in Pakistan has tremendous potential; with a sizeable proportion of trained professionals



such as approximately 80,000 graduate engineers, 20,000 licensed constructors and 1,000 registered consultants.

Government policies and opportunities

Karachi, the largest city of Pakistan, currently has a requirement of 500,000 additional housing units per year, in order to cater demand for the ever growing population.

Rising level of urbanization inclined to increase from 34.9% in 2005 to 50% by 2035, as estimated by the United Nations, provides ample development opportunity in the sector.

The investment policies in Pakistan permit 100% foreign equity ownership in the construction sector.

SECP has introduced two types of Real Estate Investment Trust schemes, namely rental and developmental, providing opportunity to the general public to pool funds for investment in real estate sector.

The Infrastructure Project Development Facility (IPDF) team has stated that around 11 projects, valued at approximately PKR200 billion, are in development stage.

11. Mining & Quarrying sector

Mineral potential of Pakistan though, recognized to be excellent is inadequately developed as its contribution to GNP at present stands at 2.4%.

During July 08 - March 09, the mining and quarrying sector registered a flat growth rate of 1.3% as against a target of 4.5%, and in comparison to 4.4% growth last year.

More than 50 metallic and non metallic minerals have been discovered in Baluchistan up till 2007-08.

About 1,344 Mineral Concessions i.e. prospecting licenses & mining leases had been granted up till 31 December 2008 to different private / public sector for small scale mining of various minerals.

Government policies and opportunities

Exploration activities are in progress in collaboration with foreign investors.

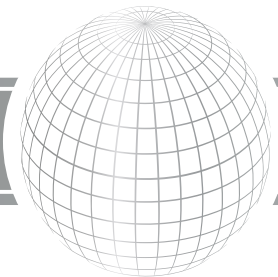
About 79 Mineral Titles i.e., Reconnaissance licenses, Exploration licenses & Mining leases have also been granted under large scale mining in the Baluchistan province.

Pakistan Mineral Development Corporation offers joint ventures in the following projects;

- Gold & Base Metals Exploration in the Northern Areas of Pakistan
- Coal Briquetting Plant
- Coal mining for small thermal power plants
- Production of Ultra Refined Salt.

12. Financial sector

The size of the country's financial sector, which includes Banks, Non-Bank Financial Institutions (NBFIs), Microfinance banks (MFB), Central Depository of National Savings (CDNS), the insurance sector and financial markets, in terms of



assets, has increased to PKR8.2 trillion by end-June 2009 from PKR7.1 trillion at end December 2007.

Banking

The banking sector posted profit before tax of PKR70.1 billion for the nine months ended 30 September 2009 in comparison to PKR83 billion in September 2008.

The banking sector's expansion has been helped by the privatization drive in the 1990s and strong FDI, approximately USD4 billion during 2004-09. Approximately 81% of the sector's assets are now in private hands.

Net Domestic Credit extended by the banking sector has reduced to PKR442.1 billion in 2008-09, which is 32.5% lower in comparison to PKR655.4 billion in 2007-08.

Currently the banking sector comprises of the following: 4 public sector commercial banks, 4 specialized scheduled banks, 25 private local banks, 7 foreign banks and 7 microfinance banks.

Asset base of banking system, currently standing at PKR6,105 billion demonstrating growth of 0.3% against PKR6,087 billion in the quarter ended June 2009.

The number of transactions made through cell phones increased to 54,009 in the 4QFY2009 from 21,733 in the 1QFY2009

Non-Bank Financial Institutions (NBFIs)

NBFIs include Non-Bank Financial Companies, Mutual Funds and Modarabas which are regulated by SECP and DFIs which are regulated by the SBP.

During FY2008, NBFIs' assets grew by 3.2% as against a robust growth of 22.7% in FY2007, to reach PKR585.6 billion and the number of operating entities was 233 in FY2009.

The size of the total assets of the sector relative to GDP at 5%, and total financial sector assets at 7.6% as provided by Financial Stability Review Report of SBP 2008-09.

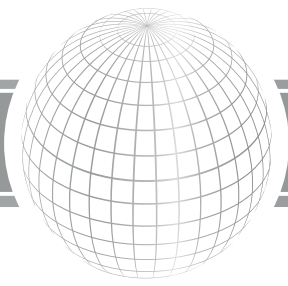
Non-Bank Financial Companies (NBFCs)

In November FY2009, SECP implemented some necessary measures to revamp the regulatory framework for NBFCs and amended the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, in addition to issuing the Non-Banking Finance Companies and Notified Regulations, 2008.

Insurance

The insurance industry has enjoyed robust growth in the last few years driven by favourable economic conditions, expansion of the financial sector as a whole, privatization of large state owned entities and foreign investments.

The share of insurance assets in the total assets of the financial sector is 4.5% and the sector assets constitute 3.3% of GDP in CY08. In CY08, 45 insurance companies were operating in Pakistan. Among these, 34 were general insurance companies; five were in the business of life insurance, with one reinsurance company and five Takaful companies. Development Financial Institutions (DFIs)



As of end-CY08, there were 7 DFIs operating in Pakistan, all of which are joint ventures between the GoP and other governments such as Kuwait and Oman.

Mutual funds

Mutual fund industry in Pakistan witnessed an era of rapid growth since FY2002 with an average growth rate of about 57% for the period FY2002-FY2008.

Net Assets reached the highest ever level of about PKR425 billion in April FY2008 when the stock market was at its peak.

The mutual funds sector has grown rapidly in the last few years and has accounted for the largest segment (more than 50%) in total assets of the non-bank financial sector in FY2008.

Government policies and opportunities

Expanding Microfinance Outreach (EMO) has been developed to extend reach of microfinance facilities to 3 million borrowers by 2010.

SECP will promote competition and introduce innovative products in the insurance market via foreign investment.

Low penetration of branches with only seven branches per 100,000 people and 0.22 branches per 1,000 kilometres, on an average, 0.10 ATMs per 1,000 kilometres and 226 bank accounts per 1,000 adults.

Positive prospects for mobile banking, given high mobile density of 54% per 100,000 people especially in areas which are not feasible for expansion through ATMs and point-of-sale kiosks due to higher expansion costs.

SBP has agreed to provide PKR215 million to Pakistan Microfinance Network (PMN) and NRSP Microfinance Bank through the Institutional Strengthening Fund (ISF) under a Memorandums of Understanding (MoUs) signed with them.

The role of life insurance as a financial intermediary is particularly important in countries like Pakistan with low levels of financial penetration at 0.8% as against regional level of 2%.

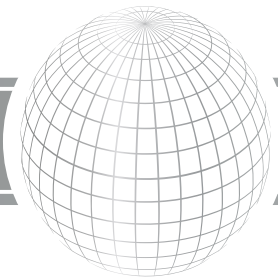
The non-bank financial sector can potentially play an important role in mobilizing financial savings, along with its significant role in meeting the diverse financing needs of various sectors of the economy.

13- Education sector

According to Pakistan Social and Living Measurement Survey 2007-08, the overall literacy rate (age ten years and above) is 56%, with 71% in urban areas and 49% in the rural.

The trend of investment on education in terms of GDP has been on the lower side with 2.50% & 2.47% in the years 2006-07 and 2007-08 respectively, and was estimated to be 2.10% during 2008-09. The primary cause is considered to be the financial constraints in the given economic situation.

Investment case for education with only 124 universities catering to approximately 170 million people in the country and approximately 20 million school age children lacking access to . course material and books for different tiers of education is in some case outdated and there are limited resources for teachers' training resources and research



laboratories.

The GoP approved the new national education policy in September 2009 which suggests raising the annual budgetary allocation for the sector to 7% of the GDP and increasing literacy to 85% by 2015.

Foreign assistance of USD1,974 million has materialised in the past few years targeted at improving education in the country.

Pakistan has a young workforce of 51.78 million (2007-08) with a literacy rate of 56.2%, leaving greater room for public as well as private partnerships to augment access to education, build infrastructure as well as train staff to achieve a skill development system that can be benchmarked against international standards.

14- Tourism sector

The tourism sector of Pakistan, although currently not an extreme priority for the GoP under its development program, has great potential to attract investment.

It has been given the status of an industry in Pakistan and holds great promise for prospective investors.

Pakistan has a blend of beauty and historic sites, ranging from the peaks of Karakorum to the historic civilization of Mohenjo-Daro.

Pakistan enjoys a long water coast of the Arabian Sea in its southern region.

Tourism services such as airlines, hotels, road transport, souvenir shops not only provide employment but also provide unique business avenues in the diversified geographical regions of Pakistan.

15- Food & nutrition sector

In Pakistan people still do not have easy access to food to meet their basic requirements for protein and deficiency of essential micronutrients, such as iodine, vitamin A, and iron.

Availability of major food items and its access during the year 2008-09 was maintained by taking necessary measures to combat the effects of international price hike and shortage of grains.

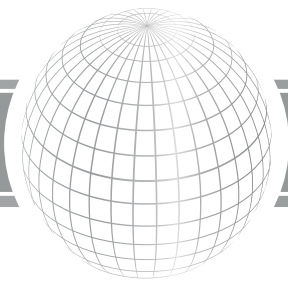
The average caloric availability remained around 2363 calories per capita per day and protein at 70gms per capita per day against the average requirement of 2350 calories per capita per day.

Currently the GoP is taking actions to rectify the situation of shortage of quality food supply in the country.

Some of the initiatives taken are food support programme for poor households, incentives to improve the nutritional status of Government Rural Primary Schools, Micro Nutrient Deficiency Control Programme etc.

16- Health sector

The health sector is a priority for the GoP, since the high correlation between the expenditure on health and productivity in developing countries like Pakistan emphasizes the importance of improving health services as an aid to growth.



Per capita health expenditure in Pakistan is a meagre USD47 with GoP allocating 3% of its total expenditure to health sector whilst the private sector provides 84% of total health expenditure.

Pakistan's key health indicators are shy of international targets forming the base case of GoP measures to reform the sector and progress is required at the policy and economic front in order to reduce the burden of diseases.

Health facilities in Pakistan are provided through health care delivery systems and Public Health Intervention (PHI). Programs under PHI include National Program for prevention of HIV / AIDS, Malaria, Hepatitis, child healthcare etc.

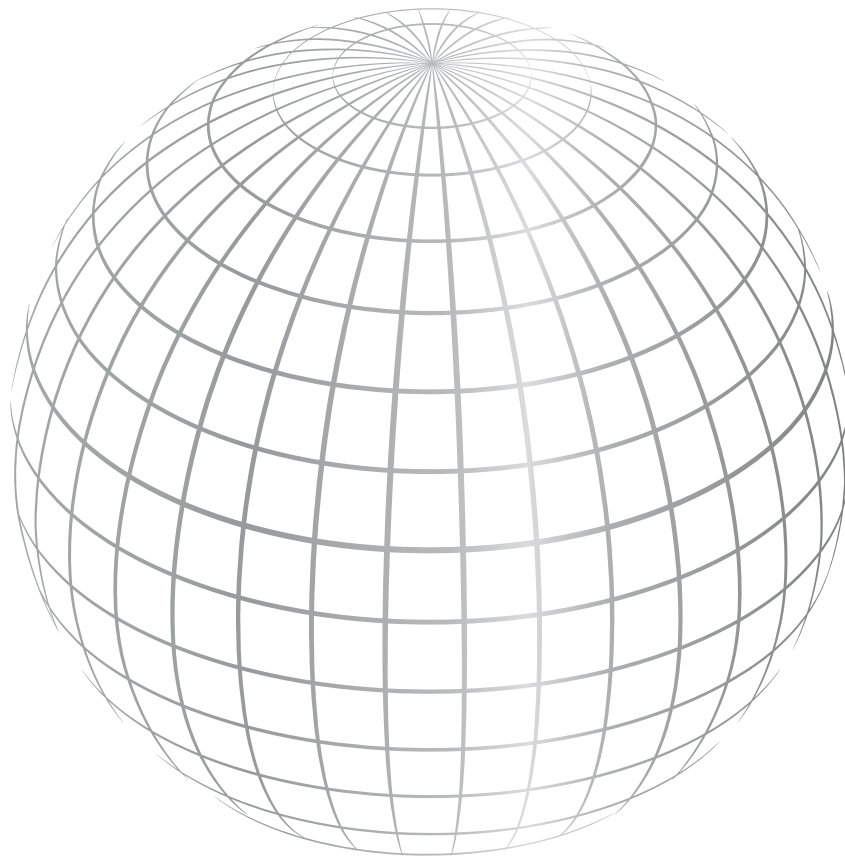
There are just 12 healthcare attendants (physicians and nursing staff) for every 10,000 people.

Low level of life expectancy (65 Years in 2007), high child mortality rate under 5 year age (73/1000 in 2007) and high population growth rate at 2.1% surpassing regional average of 1.5%; indicate the increasing need for better health care and preventive services in the country.

Only 58% of the population has access to quality sanitation as against the global average of 78%.

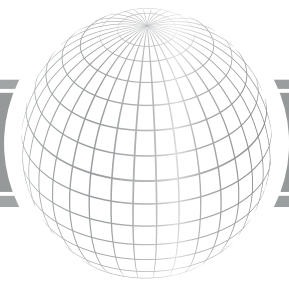
Sectors warranting attention include inadequate sanitation facilities, unsafe water, poor living conditions and malnutrition

CHAPTER 10



Investment Policies of Pakistan and India

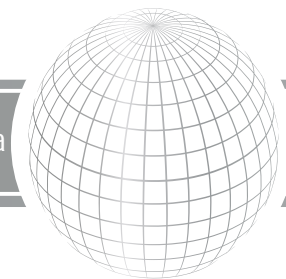
A brief comparison



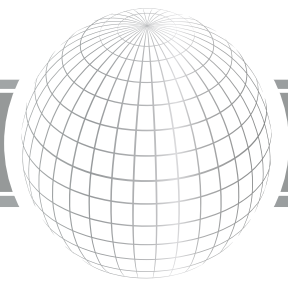
A brief comparison

Following table shows a comparative look of the investment policies of India and Pakistan for different sectors:

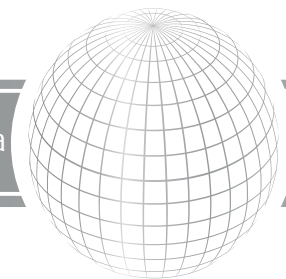
Comparison of Investment Policy for Manufacturing Sector		
Policy Measures	Pakistan	India
Government Permission	Not required (except few industries)	Not required (except a small negative list)
Remittance of capital, profits, dividends, etc.	Allowed	Allowed
Upper Limit of foreign equity allowed	100%	100%
Minimum Investment Amount (M \$)	No	No
Customs duty on import of PME	5%	7.5%
Tax relief (IDA, % of PME cost)	50%	20%
Royalty & Technical Fee	No restriction for payment of royalty & technical fee.	No restriction for payment of royalty & technical fee.



Comparison of Investment Policy for Non-Manufacturing Sector (Agriculture)		
Policy Measures	Pakistan	India
Government Permission	Not required except specific licenses from concerned agencies.	Not required except specific licenses from concerned agencies.
Remittance of capital, profits, dividends, etc.	Allowed	Allowed
Upper Limit of foreign equity allowed	100%	100
Minimum Investment Amount (M \$)	0.3	N.A
Customs duty on import of PME	0%	7.5%
Tax relief (IDA, % of PME cost)	50%	20%
Royalty & Technical Fee	Allowed as per guidelines – Initial lump-sum upto \$ 1 lac – Max rate 5% of net sales – initial period 5 years	N.A
India's Negative list for FDI include Agriculture Sector (except Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea Plantations);		



Comparison of Investment Policy for Non-Manufacturing Sector (Services)		
Policy Measures	Pakistan	India
Government Permission	Not required except specific licenses from concerned agencies.	Not required except specific licenses from concerned agencies.
Remittance of capital, profits, dividends, etc.	Allowed	Allowed
Upper Limit of foreign equity allowed	100%	A cap 74% for Telecom & banking, 26% for Insurance & Print Media,
Minimum Investment Amount (M \$)	Up to 0.3 in some cases	Insurance \$ 18 and Real Estate \$ 10 million
Customs duty on import of PME	0%	7.5%
Tax relief (IDA, % of PME cost)	50%	20%
Royalty & Technical Fee	Allowed as per guidelines – Initial lump-sum upto \$ 1 lac – Max rate 5% of net sales – initial period 5 years	N.A



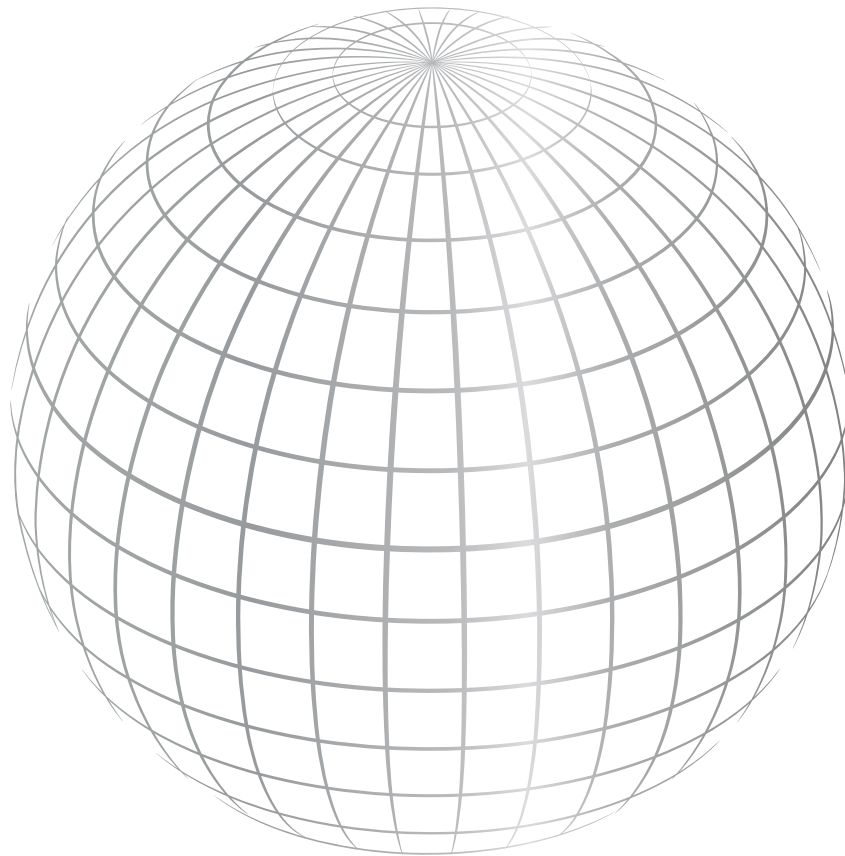
Banned or Restricted Sector for FDI	
Pakistan	India
1- Arms and ammunitions 2- High Explosives. 3- Radioactive substances 4- Security Printing, Currency and Mint. 5- No new unit for the manufacturing of alcohol, except, industrial alcohol	1. Retail Trading (except single brand product retailing); 2. Atomic Energy; 3. Lottery Business including Government / private lottery, online lotteries etc; 4. Gambling and Betting including casinos etc.; 5. Business of chit fund; 6. Nidhi Company; 7. Trading in Transferable Development Rights (TDRs); 8. Activities/sector not opened to private sector investment; 9. Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea Plantations); 10. Real estate business, or construction of farm houses; Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco or of tobacco substitutes.

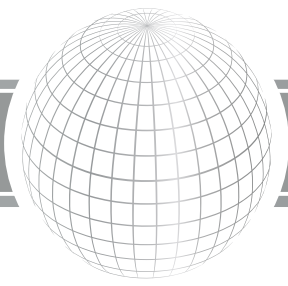
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Conclusion





By allowing investment, India has once again demonstrated its vision to further improve its relations with neighbouring countries particularly with Bangladesh and Pakistan, the individuals and business enterprises of which now are allowed to make investment in India, which ranks 2nd most populated and 4th largest economy based on purchasing power parity in the world.

As expected, it received overwhelming response by large swathes of industrialists, traders and businessmen on both sides of the border particularly those businesspersons in Pakistan who envisage liberal economic relations as the only solution to dilute political issue by prioritizing economics.

The Indian FDI Policy, permitting investments from Pakistan has come at a time when Pakistan has been passing through the adverse phase of its history of its internal, external and economic uncertainty. It may be a prime attraction for such businessmen in Pakistan who are hesitant to invest their money in their own country because non-business friendly climate in Pakistan. Due to non-availability of un-interrupted and affordable energy supply, worse law and order situation and high level of corruption, about 250,000 power looms have been reported relocated to Bangladesh from the province of Punjab only during last three years, resulting unemployment of as many as families. In the recent past a considerable outflow of Investment has been witnessed from Pakistan to Bangladesh, Sri Lanka and Malaysia.

India has a capacity to provide better environment for relocation of such Pakistani Enterprises. Perceived incentives in near future like full functioning of Integrated Check Post at Wagha-Attrai Border, movement of natural persons under Mode 4 of GATS, liberal Visa regime can be the most attractive package for Pakistani Enterprises particularly from Gujranwala, Gujrat, Sheikhpura, Kasur, Lahore etc; for their relocation in Amritsar, Ludhiana, Chandigarh, Patiala, Jalandhar.

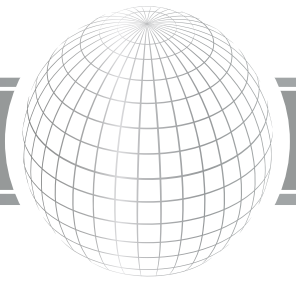
Showing reaction to Indian Call for Investment, some leading business entities like Mansha Group, Bareeze etc; have expressed their immediate desire to make hefty investment in India and are now anxiously waiting for release of complete Investment Manual in wake of Indian Commerce & Industry's Ministry notification D/O IPP File No. 5/10/2011-FC.1 dated August 2012 which provides amended version of Consolidated FDI Policy effective from 10-04-2012 and reads "A non-resident entity can invest in India, subject to the FDI policy. A citizen of Pakistan or an entity incorporated in Pakistan can invest only under the Government route, in sectors/activities other than defense, space and atomic energy". This is also the same for investment in India from Bangladesh.

Mansha Group is already in a process to seek approval from the State Bank of Pakistan to open MCB Bank Branch in India, which shows the level of readiness of big enterprises. Naturally speaking, the investors will consider investment from where they will get higher rates of return and more incentives. Although, ease of doing business reports ranks India lower to Bangladesh and Pakistan, the size of market, access to basic facilities and advantage of economy of scales remain prime reasons for attraction of FDI in India.

Allowing investment from India and Bangladesh could also be a win-win situation for investing companies, however success depends upon the nature of regulatory framework, which need to be flexible enough to attract meaningful investment from Bangladeshi and Pakistani enterprises, which will be expecting sovereign guarantee from the Government of India to protect their Investments.

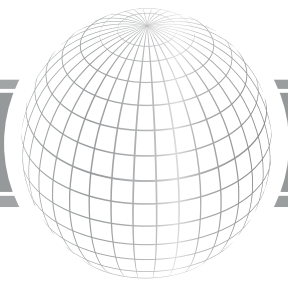
A brief comparison of Pak-India Investment policies suggest that Pakistan has persuaded more liberal investment of regime offered 100% equity in all most all sectors while in India only 60% of the sectors wherein FDI is allowed offer this provision. In addition to Federal level interventions, inter-state regulations are more active in India in respect of FDI and Joint venture established with foreign investors. For example, the consumers of cellular phones registered other than Delhi have to pay extra charges if used in other states, while in Pakistan only Federal taxes are applied.

Since investment in Pakistan from India is already allowed, Indian companies can also consider investment through Joint Ventures in and help Pakistani enterprises for promoting value addition, innovation, technological advancement,



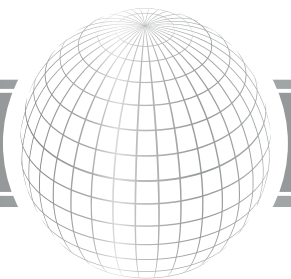
productivity and competitiveness, which subsequently will help job creation, and creating more stakes in economic relations.

Avoidance of double taxation and signing of bilateral investment treaty between India and Pakistan is earnestly required to compliment the efforts of the current Governments for deepening of socio-economic cooperation between them, which is imperative for regional development as well.



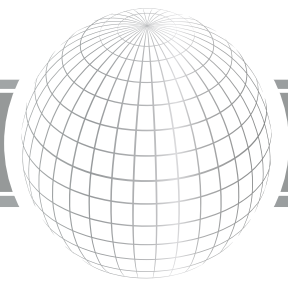
List of Abbreviations/ Acronyms

India	Republic of India
China	People's Republic of China
PRC	People's Republic of China
FDI	Foreign Direct Investment
GOI	Government of India
ASEAN	Association of Southeast Asian Nations
MoU	Memorandum of Understanding
BRICS	Brazil, Russia, India, China, South Africa
GDP	Gross Domestic Product
U. S. & USA	United States of America
WTO	World Trade Organization
G-20	Group of Twenty Finance Ministers and Central Bank Governors
APEC	Asia - Pacific Economic Cooperation
PPP	Purchasing Power Parity
SAITA	South Asia Free Trade Agreement
IMF	International Monetary Fund
USD	United States of America Dollars (\$)
ODI	Outward Direct Investment
MOFCOM	Ministry of Commerce People's Republic of China
OECD	Organization for Economic Co - operation and Development
UK	United Kingdom
UAE	United Arab Emirates
FEMA	Foreign Exchange Management Act
RBI	Reserve Bank of India
FIPB	Foreign Investment Promotion Board
CCEA	Cabinet Committee for Economic Approvals
DEA	Department of Economic Affairs
MSE	Medium & Small Enterprises
ROC	Registrar of Companies
IRDA	Insurance Regulatory and Development Authority
NRIs	Non - residential Indians
PIOs	Person of Indian Origin
LLP	Limited Liability Partnership
FII	Foreign Institutional Investor
SEBI	Securities and Exchange Board of India
ECBs	External Commercial Borrowings
GDRs	Global Depository Receipts
ADRs	American Depository Receipts
FCCBs	Foreign Currency Convertible Bonds
EXIM	Export & Import
OGL	Open General License
EPGC	Export Promotion Capital Goods
CIF	Cost, Insurance and Freight
OCB	Overseas Corporate Body
CAGR	Compound Annual Growth Rate
MRO	Maintenance, Repair and Overhaul
DGFT	Directorate General of Foreign Trade
IIT	Indian Institute of Technology



List of Abbreviations/ Acronyms

11M	Indian Institute of Management
MW	Megawatt
T&D	Transmission & Distribution
FICCI	Federation of Indian Chambers of Commerce and Industry
DTH	Direct to Home
TV	Television
DIPPIT	Department of Industrial Policy & Promotion Information Technology
IT – BPO	IT - Business process outsourcing
R&D	Research & Development
MHA	Indian Ministry of Home Affairs
NELP	New Exploration Licensing Policy
ONGC	Oil and Natural Gas Corporation Limited
BP	Bharat Petroleum
CII	Confederation of Indian Industry
VSAT	Very Small Aperture Terminal
3G/4G ISDN	3rd Generation/4th Generation Integrated Services Digital Network Automated
ATM	teller machine
WCDMA	Wideband Code Division Multiple Access
VAT	Value added Tax
ITA	Income Tax Act
DTC	Direct Tax Code
CENV AT	Central Value Added Tax
GST	Goods & Services Tax
NEIIPP	North East Industrial and Investment Promotion Policy
NE Region	North East Region
FRO/FRRO	Foreigners Registration Officers/Foreigner Regional Registration offices
UNESCO	United Nations Educational, Scientific and Cultural Organization
SEZ	Special Economic Zones
EOU	Export Oriented Unit
DTA	Domestic tariff area
EPZ	Export Processing Zone
STP	Software Technology Park
ROC	Registrar of companies
M&A	Mergers & Acquisitions
MCA	Ministry of Corporate Affairs
Lakh	100,000
Crore	10,000,000



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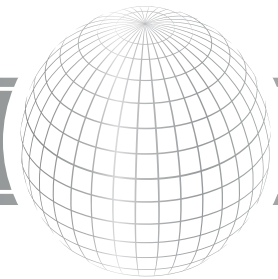
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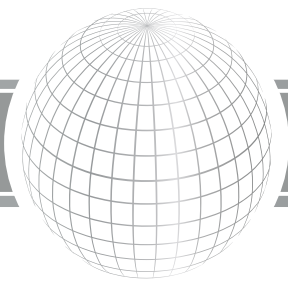
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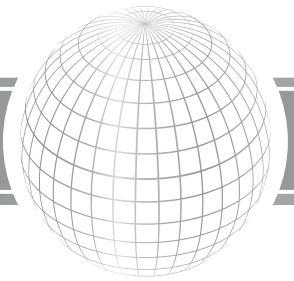
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