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Highlights: Industrial Policy

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INDUSTRIAL POLICY

Highlights

- In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, the Indian Government would give approval for direct investment upto 51% foreign equity in such industries. The list of industries where FDI can have upto 51% is comprehensive and covers a wide range of industries.

- Foreign Direct Investment upto 51% will be allowed for trading companies primarily engaged in export activities. A Special Board has been constituted to negotiate with international firms and direct investment in selected areas.

- A proposal with foreign equity now need not necessarily accompany technology transfer. Technology agreements within specified parameters will now get automatic clearance. No permission will henceforth be needed for hiring foreign technicians.

- Technology payments will be given automatic permission upto a limit not exceeding Rs. 10 million and Royalties of upto 5% on domestic sales and 8% on export sales.

- All Industries Delicensed except for a defined list of 18 industries. With this over 80% of industry has been moved out of this Industrial Licensing frame. Clearances for imports of Capital Goods have also been made automatic where Capital Goods imports are covered by foreign equity. The procedures for import of Capital Goods has also been simplified.

- Industrial locational licensing has been substantially abolished. Only industries proposed to be set up in cities with a population exceeding 1 million will require licences. However, existing zoning and land use regulations and environmental legislations will continue to influence the location of industries.

- The system of Phased Manufacturing Programme (PMP) will not be applicable to new projects. However, existing projects with such programmes will continue to be governed by them.

- Abolition of convertibility clause is another welcome step taken by the Government which will now give the entrepreneur the freedom to Invest/Borrow without the fear of indirectly loosing shareholding control.

- Areas reserved for public sector enterprises have been significantly pruned. Besides 8 specific industries guided by various strategic concerns, all other areas opened to all. Even in the restricted list, private investments may be considered selectively. At the same time, the public sector will also be free to enter areas earlier reserved exclusively for private industry.

- Limits on the assets in respect of Indian MRTP Co. and Dominant Co. in India have been removed. The Monopolies and Restrictive Trade Practices Act of India, 1969

(MRTP) regulated the economic activities of enterprises that were classified either as giant undertakings (based on asset size) or dominant undertakings (based on market share). This is expected to release Indian Industry from regulations that earlier controlled substantial expansions. There would now be no need for prior approval from the Government for New Undertakings. Expansions, Mergers, Amalgamations, Takeover, Appointment of Directors etc.

- To attract overseas funds, particularly from Non-Resident Indians (NRIs'), tax rate on dividend income and on capital gains of offshore funds have been substantially reduced.

- Under another scheme, the State Bank of India would issue India Development Bonds to be denominated in US Dollars. These bonds will be available for purchase by Non-Resident Indians (NRIs'). New sectors will now be made available to NRIs' for Investment. General exemption would be given to NRIs' under the Foreign Exchange Regulation Act (FERA) to acquire residential property.