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Foreign Direct Investment (FDI) in Defence and Railway Sector

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FOREIGN DIRECT INVESTMENT (FDI) IN DEFENCE AND RAILWAY SECTOR

Introduction

It is the intent and objective of the Government of India to attract and promote Foreign Direct Investment (FDI) in order to supplement domestic capital, technology and skills, for accelerated economic growth¹. FDI, as distinguished from portfolio investment, has the connotation of establishing a 'lasting interest' in an enterprise that is resident in an economy other than that of the investor. FDI is largely a matter of private business decision. FDI inflows depend on a host of factors such as the availability of natural resources, market size, infrastructure, political and general investment climate as well as macro-economic stability and investment decision of foreign investors.

The Government has put in place a policy framework on FDI, which is transparent, predictable and easily comprehensible. This framework is embodied in the Circular on Consolidated FDI Policy which may be updated every year, to capture and keep pace with the regulatory changes, effected in the interregnum. FDI policy is reviewed on an ongoing basis and significant changes are made in it, from time to time, to ensure that India remains increasingly attractive and investor-friendly investment destination. Changes are made in the Policy after having intensive consultation with stakeholders including concerned Ministries/Departments, Apex Industries Chambers and other organization. FDI up to 100% is allowed on the automatic route in most sectors/activities subject to applicable laws/ regulations; security and other conditionalities.

¹ Today, India is the fastest growing economy among major Nations. The World Bank has improved India's ranking by 12 places in the 2016 Study of Ease of Doing Business. FDI has gone up by 40%. Several Global Institutions have projected India as the leading destination for FDI in the World. IMF has branded India as the brightest spot in the Global Economy whereas the World Bank projects India's growth at 7.5% and even better.

To bring uniformity and simplicity in the FDI policy, the Government has introduced composite caps on foreign investments in the country. Composite cap is applicable across the sectors and is meant to attract foreign investment.

These measures are expected to increase FDI, which complements and supplements domestic investment. Domestic companies are benefited through FDI, by way of enhanced access to supplementary capital and state-of-art-technologies; exposure to global managerial practices and opportunities of integration into global markets resulting into accelerated domestic growth of the whole country.

During 2014-15 and 2015-16, the Government announced key FDI reforms in various sectors including the Defence and Railways.

FDI in Defence Sector

In April 2001, the 'Defence Industry' sector was opened up for full participation by the Indian private sector and FDI was capped at 26 per cent, subject to licensing. In the last two years or so, the policy has been tweaked a couple of times, first by raising the FDI cap to 49 per cent in August 2014 and then to 100 per cent in June 2016 (subject to government's approval beyond 49 per cent), as well as by making other changes in the FDI policy. The FDI policy currently in vogue was notified by the Department of Industrial Policy and Promotion (DIPP) vide Press Note 5 dated June 24, 2016. As per the extant FDI policy, foreign investment up to 49% is permitted under the automatic route; beyond 49% and up to 100% is permitted through Government approval.

The DIPP Fact Sheet indicates that the Defence Industries received a total of Rs. 25.49 crore (US \$5.12 million) in FDI from April 2000 to March 2017.

The current policy change has removed the requirement of single largest Indian ownership of 51% of equity. A lock-in period of three years on equity transfer has also been done-away with in FDI for defence. FDI in the defence sector is subject to other security conditions.

Sector/Activity	% of Equity/ FDI Cap	Entry Route
Defence Industry subject to Industrial license under the Industries (Development & Regulation) Act, 1951 Manufacturing of small arms and ammunition under the Arms Act, 1959	100%	Automatic up to 49% Government route beyond 49% on wherever it is likely to result in access to modern technology or for other reasons to be recorded.

Security Conditions

A number of provisions are in place to ensure that the security of country is not affected by the said policy. FDI in defence sector is subject to Industrial Licence under the Industries (Development & Regulation) Act, 1951 and Industrial Licenses are granted by Licensing Committee of the Department of Industrial Policy and Promotion (DIPP), which takes into account the security clearance of Ministry of Home Affairs (MHA). Besides, one of the conditions of license is to adhere to the Security Manual guidelines by the Licensed Defence Companies. The Security manual prescribe detailed guidelines on physical, information, documentation, cyber and personal security aspects. The manual also prescribes for security audit of such companies by Intelligence Bureau. Some of the security conditions in this Sector are:

- Infusion of fresh foreign investment within the permitted automatic route level, in a company not seeking industrial license, resulting in change in the ownership

pattern or transfer of stake by existing investor to new foreign investor, will require Government approval.

- Licence applications will be considered and licences given by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, in consultation with Ministry of Defence and Ministry of External Affairs.
- Foreign investment in the sector is subject to security clearance and guidelines of the M/o Defence.
- Investee company should be structured to be self-sufficient in areas of product design and development. The investee/joint venture company along with manufacturing facility, should also have maintenance and life cycle support facility of the product being manufactured in India.

Main Foreign Investors in Defence Sector

The Main Foreign Investors in the Defence Sector are Airbus (France), BAE India Systems (UK), Pilatus (Switzerland), Lockheed Martin (USA), Boeing India (USA), Raytheon (USA), Israel Aerospace Industries (Israel), Rafael Advanced Defense Systems Ltd. (Israel) and Dassault Aviation SA (France). The largest defence sector FDI is from French aircraft manufacturer Dassault. The investment is part of Dassault's obligations on Make in India commitments under the Rafale fighter jet deal. The French company will manufacture a significant part of the aircraft in India. From July 2016 to January 2017, FDI to the amount of 0.61 lakhs has been received from M/s Elbit Systems Land and C41 Ltd, Israel in M/s BF Elbit Advanced Systems Pvt. Ltd.

FDI in Railways

Indian Railways is the backbone of long distance passenger transport in India. It has 1.3 million strong work force and its network spans more than 66,030 kms making it the world's third largest rail network. Indian railways carried around 8224.12 million passengers in 2014-15 which is about 1.430 million higher than the passengers of the

world put together. India has the fourth largest rail freight carrier in the world and has the largest passenger carrier.

The DIPP Fact Sheet indicates that Railway related components received a total of Rs. 4515.13 crore (US \$798.55 million) in FDI from April 2000 to March 2017.

Government is pursuing modernisation and strengthening of rail network and development of rail-related industries through infusion of foreign equity and technology leading to growth in manufacturing and enhancing competitiveness. With this in view, the Government has allowed 100% FDI in the railway infrastructure segment which has opened up opportunities for participation in infrastructure projects such as high-speed railways, railway lines to and from coal mines and ports, projects relating to electrification, high-speed tracks and suburban corridors. Indian Railways envisages a prospective investment of USD 130.76 billion in the next five years.

Some of the important areas opened for FDI in Railways are indicated below:

- Suburban corridor projects through PPP;
- High speed train projects;
- Dedicated freight lines;
- Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities;
- Railway Electrification;
- Signaling systems;
- Freight terminals;
- Passenger terminals;
- Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line; and
- Mass Rapid Transport Systems.

Main Foreign Investors for Railways Sector

The main foreign investors for Railways Sector are: EMD(USA), Bombardier Transportation (Canada), GE(USA), Siemens (Germany), Alstom (France), Ansaldo sts Transportation Systems India (Australia), Titagarh Wagons Ltd. (Mauritius), CAF India Pvt. Ltd. (Spain).

The sector has witnessed USD 281.77 million FDI equity inflow during April 2014 to December 2016.² The major investments in the sector have been in the manufacturing of railway wagons, coaches, mechanical & electro-mechanical signaling system, safety and traffic control systems indicated below:

Foreign Collaborator	Country	Indian company	FDI Inflow (in USD million)
Alstom Transport Holdings B.V.	Netherlands	ALSTOM Transport India Ltd.	85.20
Bombardier Transportation Holdings	Singapore	BOMBARDIER Transportation India Pvt. Ltd.	39.50
ANSALDOSTS Australia Pvt. Ltd.	Australia	ANSALDO STS Transportation Systems India	21.52
GE Capital International	Mauritius	TITAGARH Wagons Ltd.	14.73
Inversiones EN Concesiones	Spain	CAF India Pvt. Ltd.	11.57

²Two locomotive factories at Madhepura (Electric) and Marhowra (Diesel) costing about ₹ 2600 crore entailing FDI inflow in Rolling stock manufacturing have already been awarded to Alstom and General Electric (GE) respectively in 2015.

Sources Consulted

1. *India, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion : consolidated FDI Policy (effective from 7th June, 2016) p. 24 and 25*
2. *India, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion : Press Note No. 5/2016 p.2*
3. *India, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion : Fact Sheet on FDI*
4. *India, Ministry of Commerce and Industry: Make in India, Defence Sector; FDI Policy*
5. *India, Ministry of Commerce and Industry : Make in India, Railways; FDI Policy.*
6. *Lok Sabha Unstarred Question No. 5029 dated 31.03.2017.*
7. *Rajya Sabha Unstarred Question No. 1461 dated 29.07.2016*
8. *Rajya Sabha Unstarred Question No. 3477 dated 16.12.2016*
9. *PIB Release, Ministry of Railways, dated 07.04.2017*
10. *The Economic Times, New Delhi, dated 09.06.2017*

Annexure-I

QUATERLY FACT SHEET

FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI)

FROM APRIL, 2000 to MARCH, 2017

I. CUMULATIVE FDI FLOWS INTO INDIA (2000-2017):

TOTAL FDI INFLOWS (from April, 2000 to March, 2017):

1.	CUMULATIVE AMOUNT OF FDI INFLOWS (Equity inflows + 'Re-invested earnings' + 'Other capital')	-	US\$ 484,351 Million
2.	CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding, amount remitted through RBI's NRI Schemes)	Rs. 1,787,022 Crore	US\$ 331,991 Million

B. FDI INFLOWS DURING FOURTH QUARTER OF FINANCIAL YEAR 2016-17 (JANUARY, 2017 TO MARCH, 2017):

1.	TOTAL FDI INFLOWS INTO INDIA (Equity inflows + 'Re-invested earnings' + 'Other capital') (as per RBI's Monthly bulletin)s	-	US\$ 12,194 Million
2.	FDI EQUITY INFLOWS	Rs. 51,311 Crore	US\$ 7,634 Million

FDI EQUITY INFLOWS (MONTH-WISE) DURING THE FINANCIAL YEAR 2016-17:

Financial Year 2016-17 (April-March)		Amount of FDI Equity inflows	
		(In Rs. Crore)	(In US\$ mn)
1.	April, 2016	22,345	3,362
2.	May, 2016	13,271	1,983
3.	June, 2016	15,111	2,245
4.	July, 2016	27,430	4,081
5.	August, 2016	32,150	4,803
6.	September, 2016	34,366	5,149
7.	October, 2016	41,353	6,195
8.	November, 2016	31,631	4,677
9.	December, 2016	22,727	3,347
10.	January, 2017	27,067	3,976
11.	February, 2017	8,118	1,210
12.	March, 2017	16,126	2,448
2016- 17 (form April, 2016 to March, 2017) #		291,696	43,478
2015-16 (form April, 2015 to March, 2016) #		262,322	40,001
%age growth over last year		(+11%)	(+9%)

D. FDI EQUITY INFLOWS (MONTH-WISE) DURING THE CALENDAR YEAR 2017:

Calendar Year 2017 (Jan.-Dec.)		Amount of FDI Equity inflows	
		(In Rs. Crore)	(In US\$ mn)
1.	January, 2017	27,067	3,976
2.	February, 2017	8,118	1,210
3.	March, 2017	16,126	2,448
Year 2017 (up to March, 2017) #		51,311	7,634
Year 2016 (up to March, 2016) #		71,259	10,559
%age growth over last year		(-)28%	(-)28%

Note: (i) Country & Sector specific analysis is available from the year 2000 onwards, as Company-wise details are provided by RBI from April, 2000 onwards only. # Figures are provisional, subject to reconciliation with RBI, Mumbai.

Annexure-II

STATEMENT ON SECTOR-WISE FDI EQUITY INFLOWS

FROM APRIL 2000 TO MARCH 2017

S.No	Sector	Amount of FDI Inflows		%age of Total Inflows
		(In Rs crore)	(In US\$ million)	
1	Services Sector*	316,567.77	59,476.49	17.92
2	Computer Software & Hardware	136,789.08	24,669.49	7.43
3	Construction Development: Townships, housing, built-up infrastructure and construction-development projects	114,638.90	24,293.08	7.32
4	Telecommunications	130,163.87	23,946.04	7.21
5	Automobile Industry	92,218.42	16,673.91	5.02
6	Drugs & Pharmaceuticals	75,820.05	14,706.89	4.43
7	Trading	84,557.43	14,210.86	4.28
8	Chemicals (Other Than Fertilizers)	68,951.96	13,293.09	4.00
9	Power	60,086.74	11,589.13	3.49
10	Metallurgical Industries	53,074.07	10,330.53	3.11
11	Hotel & Tourism	55,849.50	10,143.46	3.06
12	Construction (Infrastructure) Activities	60,375.18	9,817.48	2.96
13	Food Processing Industries	45,130.72	7,542.91	2.27
14	Petroleum & Natural Gas	33,856.56	6,856.16	2.07
15	Electrical Equipments	36,761.13	6,567.42	1.98
16	Information & Broadcasting (Including Print Media)	36,479.02	6,493.71	1.96
17	Cement And Gypsum Products	29,039.29	5,239.22	1.58
18	Non-Conventional Energy	29,520.54	5,181.50	1.56
19	Industrial Machinery	24,251.58	4,393.87	1.32
20	Hospital & Diagnostic Centres	24,796.26	4,339.49	1.31
21	Consultancy Services	19,369.38	3,617.72	1.09
22	Miscellaneous Mechanical & Engineering Industries	16,828.19	3,313.34	1.00
23	Sea Transport	15,374.00	2,712.56	0.82
24	Fermentation Industries	13,637.93	2,487.82	0.75
25	Textiles (Including Dyed,Printed)	13,757.33	2,471.42	0.74
26	Rubber Goods	13,517.50	2,347.02	0.71
27	Mining	12,402.69	2,271.84	0.68

28	Agriculture Services	9,791.34	1,920.74	0.58
29	Prime Mover (Other Than Electrical Generators)	9,807.34	1,738.16	0.52
30	Electronics	8,736.81	1,720.00	0.52
31	Ports	6,730.91	1,637.30	0.49
32	Medical And Surgical Appliances	9,183.54	1,576.85	0.47
33	Education	7,946.53	1,416.20	0.43
34	Paper And Pulp (Including Paper Products)	6,818.91	1,291.43	0.39
35	Soaps, Cosmetics & Toilet Preparations	6,706.70	1,203.92	0.36
36	Air Transport (Including Air Freight)	5,744.85	1,014.45	0.31
37	Retail Trading	6,301.44	988.56	0.30
38	Diamond,Gold Ornaments	5,012.32	895.96	0.27
39	Machine Tools	4,506.94	861.85	0.26
40	Railway Related Components	4,515.13	798.55	0.24
41	Ceramics	3,720.33	760.12	0.23
42	Vegetable Oils And Vanaspati	3,882.13	697.51	0.21
43	Printing Of Books (Including Litho Printing Industry)	3,564.67	634.66	0.19
44	Fertilizers	3,066.09	565.69	0.17
45	Glass	2,969.52	551.45	0.17
46	Agricultural Machinery	2,361.55	449.18	0.14
47	Earth-Moving Machinery	2,150.27	389.39	0.12
48	Commercial, Office & Household Equipments	1,811.42	353.47	0.11
49	Scientific Instruments	1,517.83	254.93	0.08
50	Sugar	1,218.17	204.44	0.06
51	Boilers And Steam Generating Plants	1,184.39	195.15	0.06
52	Leather,Leather Goods And Pickers	898.52	167.21	0.05
53	Timber Products	907.25	157.69	0.05
54	Glue And Gelatin	818.21	128.39	0.04
55	Tea And Coffee (Processing & Warehousing Coffee & Rubber)	516.27	111.22	0.03
56	Dye-Stuffs	510.44	88.40	0.03
57	Industrial Instruments	369.18	76.14	0.02
58	Photographic Raw Film And Paper	273.76	67.29	0.02
59	Coal Production	119.19	27.73	0.01
60	Mathematical,Surveying And Drawing Instruments	39.80	7.98	0.00
61	Defence Industries	25.49	5.12	0.00
62	Coir	22.05	4.07	0.00
63	Miscellaneous Industries	49,458.03	10,043.43	3.03

	Sub Total	1,787,022.43	331,991.05	
64	RBI's- NRI Schemes (2000-2002)	533.06	121.33	
	Grand Total	1,787,555.49	332,112.38	

- (i) **Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing Analysis*
- (ii) *FDI inflows data re-classified, as per segregation of data from April 2000 onwards.*
- (iii) *Percentage of inflows worked out in terms of US\$ & the above amount of inflows received through
FIPB/SIA route RBI's automatic route & acquisition of existing shares only.*

FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.