

Topic: The Big Bang Effect

Foreign investment is considered crucial for India, which needs around **\$1 trillion** for overhauling its infrastructure sector such as **ports, airports and highways** to boost growth. A strong inflow of foreign investments will help improve the country's balance of payments situation and strengthen the rupee value against other global currencies, especially the US dollar.

With India now acknowledged as **the fastest growing large economy in the world** and also edging up in the **World Bank's ease of doing business rankings**, the time is ripe for the country to open its doors wider to **Foreign Direct Investment (FDI)**. This is exactly what the Centre has done by raising FDI caps in some sectors (airlines from 49 to 100 per cent), sweeping others entirely into the automatic route (cable TV, Brownfield airports) and diluting preconditions for sectors with restrictions (relaxation of sourcing norms in single-brand retail and technology norms for defence). FDI is stickier and more resilient to business cycles than mercurial Foreign Portfolio Investor (FPI) flows. At a time when the private sector has a limited appetite to invest and when the government is tied down by fiscal constraints, India needs to seek out foreign capital to keep its growth engines purring. That foreign investors are interested in India is evident: **there has been a 23 per cent surge in inbound FDI, which touched a record \$55.5 billion in 2015-16.**

The government announced **fresh liberalization of FDI rules** throwing open food retail, airlines and private security firms to higher overseas investment. Other sectors in which FDI norms have been relaxed include **e-commerce in food products, broadcasting carriage services, private security agencies and animal husbandry**. It also tweaked rules to allow companies such as **Apple to open their own stores** in the country by exempting them from local sourcing requirements for **three years** under the single brand retail segment for entities with cutting edge technology. The decision to further liberalize FDI regime with the objective of "providing major impetus to employment and job creation in India" was taken at a meeting chaired by Prime Minister Narendra Modi. The decision comes **two days after RBI governor Raghuram Rajan** announced his decision to **return to the US** on completion of his term in September. They were seen as a signal from the government that changes in the administrative set up are unlikely to impact its reform plans.

This is the **second major reform** in the FDI space. The Centre in **last November** had significantly relaxed the **foreign investment regime**. Key changes include allowing **100% FDI** under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India and permitting up to **100 per cent FDI in defence sector**. The other sectors that have benefitted include the broadcasting, pharmaceuticals, civil aviation, and single brand retail among others. The PM chose to **ignore protests** from **food processing** ministry on mandating sourcing norms for food retailers in a segment where 100% FDI has been permitted without riders. In case of **airlines**, however, the **government has chosen to restrict overseas** carriers from holding beyond **49%** while **allowing 100% FDI**. In case of **private security agencies** the government has increased **the cap to 74% from 49%** but companies need to approval and follow the prescribed norms for the sector. In a statement, DIPP also said that **74% FDI** under automatic route would be allowed in **Brownfield pharma ventures** instead of **49%** earlier.

Topic  
Introduction

### Here's a look at the changes in FDI:

- **Upto 100% FDI** in defence sector
- **Upto 74% FDI in Brownfield pharmaceuticals** under automatic route
- **100% FDI in Brownfield airport projects** under automatic route
- **100% FDI in civil aviation**
- **FDI upto 49% in civil aviation** under automatic route, beyond 49% through govt approval
- **Local sourcing norms** for FDI in single brand retail for products having "state of art" and "cutting edge" technologies
- **100% FDI** under automatic route for **cable networks, DTH and mobile TV**

Even so, it is simplistic to assume that merely opening up more sectors or setting more liberal equity caps will have foreign investors queuing up to invest. India's experience suggests that actual investment interest in the newly liberalized sectors will be tied to **three factors**.

1. **Foreign investors, like domestic ones, are ROI** (Return on Investment) focused. Therefore, sectors that are already witnessing booming consumer demand — such as DTH television, airlines and pharmaceuticals — are more likely to attract quick investment flows than those that are in need of bailouts (asset reconstruction firms) or entail long gestation periods (airports or defence).
2. Even if the Centre is willing to reduce initial entry barriers, **frequent market or pricing interventions can deter investors**. The Centre seems to have recognized this in watering down the sourcing norms for FDI in single-brand retail. But its attempts to woo FDI into pharma may be stymied by increasing price controls and the lack of clarity in the policy on essential drugs.
3. The experience with sectors such as **insurance** suggests that foreign investors committing long-term capital expect to exercise control over the entities they fund. Overall, there is no disputing that the FDI relaxations, irrespective of whether they were timed to signal the Centre's commitment to reforms in the face of RBI Governor Raghuram Rajan's exit in September, are a step in the right direction. But as we have learnt from the past, the devil is usually in the detail.

### Read further:

<http://www.thehindu.com/news/national/centre-relaxes-fdi-norms-in-15-sectors/article7865451.ece>  
[http://zeenews.india.com/business/news/economy/modi-govts-big-reform-push-approves-100-fdi-in-defence-civil-aviation-pharma\\_1897870.html](http://zeenews.india.com/business/news/economy/modi-govts-big-reform-push-approves-100-fdi-in-defence-civil-aviation-pharma_1897870.html)  
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