FOREIGN INVESTMENT REFORMS – HIGHLIGHTS

INDIA

"The effort is to get a stable growth in the economy. The resolve to get a funding mix to finance the current account deficit is a welcome step."
- Shubhada Rao, Chief Economist, Yes Bank

On July 16, 2013, amid concerns over a weakening rupee, dwindling capital inflows and a widening current account deficit, the country moved a step closer to overhauling its Foreign Direct Investment (FDI) Policy as the UPA Government hiked caps and relaxed rules for FDI in key sectors including defence, telecom, insurance, commodity exchanges and power exchanges.

The FDI decisions will be incorporated in a Cabinet note and placed before the Union Cabinet for approval at a meeting soon.

A brief summary of the decisions taken by Prime Minister Manmohan Singh and his colleagues is as below:

I. FDI cap in Defence Sector remained unchanged at 26% under Foreign Investment Promotion Board (FIPB) route, however, higher caps of foreign investment in state-of-the-art manufacturing would be considered by the Cabinet Committee on Security (CCS) on case to case basis.

II. In Basic & Cellular Telecom Services, while 49% FDI cap under automatic route remains unchanged, an increase from 74% to 100% in the cap under the FIPB route has been proposed.

III. In the Insurance Sector, increase in FDI cap from 26% to 49% under the automatic route has been proposed.

IV. In the case of Single Brand Retail Trading, from the existing 100% cap under the FIPB route, 49% has been proposed to be brought under the automatic route and from 49% to 100% will remain under the FIPB route.

V. In Petroleum and Natural Gas sector, the proposed cap of 49% remains unchanged, but approval from the FIPB will not be needed.

VI. In commodity exchanges, power exchanges, stock exchanges, depositories and clearing corporations, the cap has gone up to 49% under the automatic route, from the existing 49% (26% FDI and 23% FII) cap under the FIPB route.

VII. For Asset Reconstruction Companies, the 49% cap has been brought under the automatic route and from 49% to 100% under the FIPB route, from the existing 74% cap under the FIPB route.

VIII. For Credit Information Companies, the cap under automatic route has been hiked to 74%, from the existing 49% cap under the FIPB route.

IX. In Tea and Plantation sector, the 49% cap has been brought under the automatic route and from 49% to 100% under the FIPB route, from the existing 100% cap under the FIPB route. Further, condition of 26% divestment to Indian Partner after 5 years is withdrawn.

X. For Courier services existing 100% FDI cap under the FIPB route has now been placed on the automatic route.

The Government did not change the caps in aviation and multi-brand retail and no decision was taken on allowing FDI in media. However, Commerce and Industry Minister Anand Sharma promised to come out with clarifications on the norms governing investment in multi-brand retail.

The measures are aimed at attracting foreign capital, critical for trimming a widening current account deficit that has rattled the government after the rupee's slide over the past few weeks.

"State-of-art technology coming to India is good for the defence sector but the concern is the time clearance of such proposals will take. Also, it will be subject to clearance from investors' respective governments."

- M V Kotwal, President & Whole Time Director, L&T

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