



Changes in Foreign Direct Investment Policy

On account of series of measures introduced by Government of India (GoI), India is fast becoming one of the most open economies in the world in terms of its foreign investment regime. In most of the sectors, foreign investment is now allowed under automatic route, with exception of fewer sector/activities. To keep the momentum going and to provide major impetus to job creation and infrastructure, the GoI announced radical changes leading to further liberalisation of Foreign Direct Investment (FDI) regime in India.

The summary of these changes, emanating from the press release, are summarised herein below. These changes will be ratified through the formal press note, to be issued by Department of Industrial Policy and Promotion (DIPP) in due course.

S. No.	Sector	Existing	Changes introduced
1	Trading in food products manufactured/ produced in India	No regulation	<ul style="list-style-type: none"> 100 per cent FDI under approval route for trading, including through e-commerce, in respect of food products manufactured/ produced in India.
2	Defence sector	<ul style="list-style-type: none"> FDI up-to 49 per cent allowed under automatic route. Beyond, 49 per cent under approval route in cases where such FDI is likely to result in: <ol style="list-style-type: none"> Access to modern technology; and State of the art technology in the country 	<ul style="list-style-type: none"> FDI beyond 49 per cent under approval route in cases where such FDI is likely to result in access to modern technology or for other reasons to be recorded. The condition of access to state-of-art technology in the Country has been done away with. FDI limit has now been made applicable to manufacturing of small arms and ammunitions covered under the Arms Act, 1959
3	Broadcasting carriage services: <ol style="list-style-type: none"> Teleports; 	<ul style="list-style-type: none"> FDI is allowed upto 49 per cent under automatic route and 	<ul style="list-style-type: none"> FDI is allowed upto 100 per cent under automatic route

	<ul style="list-style-type: none"> b) Direct to home; c) Cable Networks; d) Mobile TV; e) Headend-in-the Sky Broadcasting services; and f) Cable networks 	thereafter upto 100 per cent under approval route.	<ul style="list-style-type: none"> • Infusion of fresh foreign investment, beyond 49 per cent, in a company not seeking license/permission from sectoral ministry, resulting in change in ownership pattern or transfer of stake by existing investor to new foreign investor, will require government approval.
4	Pharmaceutical	<ul style="list-style-type: none"> • Greenfield projects – 100 per cent under automatic route; and • Brownfield project – 100 per cent under approval route 	<ul style="list-style-type: none"> • Greenfield projects – 100 per cent under automatic route; and • Brownfield projects - FDI up-to 74 per cent is allowed under automatic route. Beyond 74 per cent approval route would continue to apply
5	Civil Aviation Sector	<p>Airports</p> <ul style="list-style-type: none"> • Greenfield projects – 100 per cent under automatic route; and • Brownfield project – 74 per cent under automatic route and thereafter, upto 100 per cent under approval route. <p>Airport Transport Services</p> <ul style="list-style-type: none"> • FDI upto 49 per cent under automatic route 	<p>Airports</p> <ul style="list-style-type: none"> • Greenfield projects – 100 per cent under automatic route; and • Brownfield project – 100 per cent under automatic route. <p>Airport Transport Services</p> <ul style="list-style-type: none"> • FDI up-to 100 per cent is allowed, up-to 49 per cent under automatic route and beyond 49 per cent through approval route (other than in case of investment by foreign airline, where FDI up-to 49 per cent is allowed)
6	Private Security Agencies	49 per cent FDI under approval route	<ul style="list-style-type: none"> • FDI up-to 49 per cent under automatic route and • Beyond 49 per cent and up-to 74 per cent under approval route
7	Establishment of branch office (BO), liaison office (LO) or project office (PO)	Separate clearance from Reserve Bank of India/ security clearance was required for establishment of BO/ LO/ PO in Defence, Telecom, Private Security and Information and Broadcasting sectors	<ul style="list-style-type: none"> • No such approval is required in cases where approval is granted by Foreign Investment Promotion Board (FIPB) or concerned ministry/regulator
8	Animal Husbandry	100 per cent under automatic route subject	<ul style="list-style-type: none"> • The controlled conditions prescribed have been done away with

		to compliance with controlled conditions	
9	Single Brand Retail Trading	In cases involving FDI beyond 51 per cent, 30 per cent of value of goods purchased were to be sourced from India.	<ul style="list-style-type: none"> • The sourcing requirements have been relaxed upto three years • For entities having 'state-of-art' and cutting edge' technology the sourcing norms have been relaxed for another 5 years

Our Comments

The above radical changes open the door for larger foreign investment in the country. Amongst all, permitting 100 per cent foreign investment in promoting food products manufactured/produced in India will create a milestone in Indian economic reform journey which started in the year 1991. This change is likely to benefit farmers paving way for creating robust backend infrastructure and giving end consumers access to good quality food products. This will also act as a step to control the wastage of food products and in-turn, help in controlling food inflation.

The other changes on Defense, Single brand retail trading are also likely to facilitate further foreign investment as some of the conditions acting as impediment have been relaxed. Pharmaceutical sector has also attracted significant foreign investment in the past years and allowing these investment under automatic route (upto 74 per cent) would facilitate greater degree of foreign participation in this sector.

The above changes clearly exhibit the consistent approach of GoI in opening various sectors for foreign investment in India along with the measures taken improve ease of doing business in India.

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