Easing of FDI Norms

Why in news?

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The Centre has recently eased several FDI norms.

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What are the highlights?

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- **Approval** - In the single-brand retail, the Centre has allowed 100% FDI through the automatic route, from the 49% at present.
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- 100% FDI is allowed in construction development relating to building townships, housing and infrastructure and real estate broking services.
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- **Local Sourcing** - The mandatory 30% requirement could be relaxed for companies with 'state-of-the-art' or 'cutting edge' products, for which local sourcing was not possible.
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- However, the absence of a definition for 'state-of-the-art' or 'cutting edge' technology has stalled the applications of global companies.
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- The mandatory local sourcing is now relaxed for the first five years.
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- Thereafter, single-brand retailers will be required to meet the 30 per cent local sourcing norm.
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- **Power sector -** The government has removed the restrictions on investment in power exchanges through the primary market.
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- This applies to foreign institutional investors and portfolio investors.
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- Till now they could do so only through the secondary market.
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- **Air India** - Importantly, the Centre has allowed foreign airlines to invest up to 49% under the approval route in Air India.

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- These are subject to the conditions that -

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i. foreign investment(s) in Air India, including that of foreign airline(s), shall not exceed 49% either directly or indirectly

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ii. substantial ownership and effective control of Air India shall continue to be vested in an Indian national

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What is the rationale for Air India decision?

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- The move comes in the backdrop of Singapore Airlines and Tata Group evincing interest in bidding for the debt-laden national carrier.

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- As per the present policy, foreign airlines are allowed to invest under the government approval route up to the limit of 49% of their paid-up capital.

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- The investments are made in the capital of Indian companies operating scheduled and non-scheduled air transport services.

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- However, this provision was not applicable to Air India, and the government has now decided to do away with this restriction.

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- The move is aimed at bringing Air India on par with other Indian airline operators with respect to FDI norms.

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What is the significance?

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- The move regarding airlines was much needed in light of the proposed privatization of Air India.

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- The changes to the FDI norms would trigger significant interest in Air India from foreign airlines and thus increase the number of interested bidders and

the valuation.
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- However, the actual terms of the offer and conditions attached would determine the level of participation in the bids.
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- The possible divestment would help spur more jobs and growth in Air India.
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- The amended norms, in general, have cut the red tape and ensured a more predictable and easier policy structure.
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- The automatic approval will save companies from the delaying procedures with the Department of Industrial Policy and Promotion.
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- The changes gains significance with India's goal of making it to the top 50 countries in the World Bank’s ease of doing business ranking.
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Source: The Hindu, Business Standard

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Quick Fact

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Local Sourcing

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- Local sourcing requirement mandates that a global company contract the goods or services delivered or manufactured within the domestic country.
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- Companies, under the new norms, will be allowed to set off purchases of goods from the country for their global business against the 30% requirement for the first five years.
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- The offset amount will be equal to the annual increase in the value of goods purchased from India for global operations in rupee terms.

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- The relaxed time frame for local sourcing is conducive for global companies to develop good suppliers as partners.

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