

# **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.  $\n$
- 100% FDI is allowed in construction development relating to building townships, housing and infrastructure and real estate broking services.  $\n$
- 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.  $\n$
- The mandatory local sourcing is now relaxed for the first five years. h
- Thereafter, single-brand retailers will be required to meet the 30 per cent local sourcing norm.  $\n$
- Power sector The government has removed the restrictions on investment in power exchanges through the primary market.
- This applies to foreign institutional investors and portfolio investors.  $\ensuremath{\sc n}$
- Till now they could do so only through the secondary market.  $\\space{\space{1.5}n}$
- 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 -  $\n$ 

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

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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.  $\n$
- 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.  $\n$
- The investments are made in the capital of Indian companies operating scheduled and non-scheduled air transport services.
- However, this provision was not applicable to Air India, and the government has now decided to do away with this restriction.  $\n$
- 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.  $\n$
- The possible divestment would help spur more jobs and growth in Air India.  $\n$
- The amended norms, in general, have <u>cut the red tape</u> and ensured a more predictable and easier policy structure.  $\n$
- The automatic approval will save companies from the <u>delaying procedures</u> with the Department of Industrial Policy and Promotion.  $\n$
- 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.  $\n$

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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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- $\bullet$  Local sourcing requirement mandates that a global company contract the goods or services delivered or manufactured within the domestic country.  $\n$
- 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.
- 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. ∖n



