FDI Policy Reform

Why in news?

The Union Cabinet recently decided to further liberalize foreign direct investment (FDI) rules in four sectors.

What are the key changes?

- The government approved foreign investment in digital media up to stakes of 26%.
- 100% foreign direct investment (FDI) under the automatic route in coal mining and associated infrastructure has been approved.
- This is to include those companies seeking to commercially sell the commodity.
- To boost domestic manufacturing, 100% FDI in contract manufacturing under automatic route has been allowed.
- On FDI in single-brand retail trade (SBRT), the Cabinet has expanded the definition of a mandatory 30% domestic sourcing norm.
- [Currently, the FDI policy provides that 30% of the value of goods has to be procured from India if the SBRT entity has FDI of more than 51%
- Under the changes, all procurement made from India by the SBRT entity for that single-brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or exported.]
- It also allowed single-brand retailers to start online sales, waiving the previous condition of setting up a mandatory brick-and-mortar store.

What is the rationale?

- The government is clearly concerned by the economic slowdown and persistently weak investment activity.
- Also, there is a little slowing down of FDI worldwide.
- The RBI too recently pointed out that net FDI flows had moderated to $6.8 billion over the first 2 months of the current fiscal year (2019-20) from $7.9 billion in April-May 2018.
- Also, the government has set a goal of ensuring India becomes a $5 trillion economy within the next 5 years.
- So, the overall consumptive capacity needs to be raised manifold to support demand growth.

- Given these, the move comes as an effort to get economic growth back on track.
- The measures are expected to make India a more attractive destination to overseas investors and boost investment in private sector.
- It would provide a policy fillip to attract more foreign capital into sectors that are seen as having a multiplier effect particularly in terms of job creation.

What are the shortfalls?

- A closer examination of the reforms raises several concerns about the ultimate attractiveness of these changes.
- **Coal mining** - The changes to investment norms on coal appear to be a win-win for both the economy at large and the coal industry.
- [This is keeping aside the environmental costs of focusing on one of the most polluting fossil fuels.]
- This is based on the prospect of seeing an influx of both capital and modern technology into mining and processing.
- Another factor is raising the domestic supply of the key raw material for power, steel and cement production thereby cutting costly and increasing imports.
- However, for foreign mining companies to proceed, several related regulatory and market challenges will have to be addressed.
- Large miners will need economies of scale and so require access to large contiguous fields with minimal bureaucratic constraints on operations.
- Given these, how much additional investments may actually accrue is not clear.
- Addressing these shortfalls is essential to make the latest FDI rule changes to be enough to draw a rush of investments.

Source: Livemint, The Hindu

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