

FEMA UPDATE: Cabinet approves proposal for Review of Foreign Direct Investment ('FDI') policy on various sectors

On August 28th 2019, the Union Cabinet chaired by the **Prime Minister Shri. Narendra Modi** approved proposal for review of the current **Foreign Direct Investment (“FDI”)** policy on various sectors.

In respect of the above, the proposed changes in the FDI policy are listed herein below:

1.Contract Manufacturing: 100% FDI now being permitted under the automatic route in contract manufacturing.

Presently, it is 100% in manufacturing and there is no specific provision for contract manufacturing. This change will be a big boost to Manufacturing sector in India.

2. Coal Mining: In the coal sector, for sale of coal, 100% FDI under automatic route is proposed to be allowed for coal mining, activities including associated processing infrastructure.

Presently, 100% FDI is allowed in coal mining for captive consumption only. This change will attract international players to create an efficient and competitive coal market.

3. Single Brand Retail trading (SBRT): Under the present FDI policy, FDI of up to 100% (hundred per cent) is permitted under the automatic route in the SBRT sector subject to a condition that 30% (thirty per cent) of the value of goods purchased have to be sourced from India, if the SBRT entity has FDI of more than 51% (fifty one percent). Under the current scenario, for the first 5 (five) years, this local sourcing requirement can be met as an average of the total value of goods purchased during these 5 (five) years. However, the requirement of minimum local sourcing is proposed to be mitigated by removing the current cap for exports for 5 (five) years only. It is further stated by the Government that all procurement made from India by the SBRT entity for the single brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or exported. Also, the proposed FDI policy will allow single brand retailers to operate through e-commerce prior to opening stores in India, subject to the condition that the SBRT entity opens brick and mortar stores within 2 (two) years from date of start of online retail

This will lead to greater flexibility and ease of operations for SBRT entities, besides creating a level playing field for companies with higher exports in a base year. In addition, permitting online sales prior to opening of brick and mortar stores brings policy in sync with current market practices. Online sales will also lead to creation of jobs in logistics, digital payments, customer care, training and product skilling.

4. Digital Media: The Government of India has decided to permit 26% FDI under government route for uploading/ streaming of News & Current Affairs through Digital Media, on the lines of print media.

Presently, the FDI policy provides 49% FDI under the approval route in Up-linking of 'News & Current Affairs' TV Channels.

IMPACT OF ABOVE-STATED AMENDMENTS ON THE ECONOMY OF INDIA:

- The changes in FDI policy will result in making India a more attractive FDI destination, leading to benefits of increased investments, employment and growth.
- The above-mentioned amendments to the FDI Policy are meant to liberalize and simplify the FDI policy to provide ease of doing business in the country, leading to larger FDI inflows and thereby contributing to growth of investment, income and employment.