



# FOREIGN DIRECT INVESTMENT REFORMS IN INDIA



सत्यमेव जयते

उद्योग संवर्धन और आंतरिक व्यापार विभाग

DEPARTMENT FOR

PROMOTION OF INDUSTRY AND INTERNAL TRADE

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Prime Minister Narendra Modi during his keynote address at the WEF 2018 where he highlighted that the structural reform carried out by the Government, has opened India to FDI.

*“There has never been a better time to invest in India” - PM Narendra Modi*



## INTRODUCTION

The Government has put in place a transparent, predictable and investor friendly Foreign Direct Investment (FDI) policy under which FDI is permitted through automatic route in most sectors. India continues to open up its sectors to global investors by raising FDI limits, removing regulatory barriers for attracting increased FDI and inviting high-tech solutions, in addition to developing infrastructure, improving the business environment, building a robust and predictable taxation regime and nurturing international relations.

India's commitment to fiscal discipline, sound external position, strong FDI inflows, comprehensive structural reforms, efficient delivery of services through the India stack and benefits and enhanced emphasis on social protection and financial inclusion have provided a strong framework for sustaining strong and inclusive growth going forward. India's performances in the Ease of Doing Business Index, Global Competitiveness Index, Logistics Performance Index and Global Innovation Index are all positive and encouraging.

India today is one of the most attractive FDI destinations in the world. This booklet deals with FDI reforms since 2014 and its impact across various sectors.

## NEED FOR REFORM

In the years prior to 2014, India was unsuccessful in attracting FDI commensurate with India's capital requirements. Policy paralysis, presence of multiple sectors under the Government approval route, low FDI caps across sectors as well as onerous FDI linked performance conditions across sectors did not enthruse foreign investors. India's FDI problems were compounded by the fact that other nations were engaging in competitive liberalization and offering highly attractive FDI policies to foreign investors.



In 2014-2015, FDI inflows in India stood at a mere US\$ 45.15 billion as compared to the highest ever annual FDI inflow of US\$ 74.39 billion (provisional figure) during the last financial year 2019-20. The low FDI inflows in the years prior to 2014 was reflective of an unimaginative and rigid approach towards policy making.

There was a growing need for a liberal and investor friendly FDI regime to remove policy bottlenecks, augment domestic capital through increased inflow of FDI, promote industrial development, bring international best practices and latest technologies to India and generate employment across sectors.

## **BIG MOVES IN FDI REFORM**

***“We have undertaken bold FDI reforms. More than 90 per cent of the FDI approvals have been put on the automatic approval route”***

***- PM Narendra Modi***

The current Central Government recognizes FDI as one of the critical drivers of economic growth, and a major source of capital for the economic development of India. Since 2014, the Central Government has pushed through FDI reform, with several radical and transformative measures, in a number of sectors with the objective of making India a more attractive investment destination.

A brief overview of the key FDI reforms introduced by the Government of India since 2014 which have resulted in India attracting record levels of FDI are as follows:



## Defence Sector

In 2014, the FDI limits for the defence sector were raised from 26% to 49%, under the Government approval route. To realize the vision of an Aatmanirbhar Bharat, FDI in defence sector has now been allowed up to 74% through automatic route for companies seeking new industrial licenses. FDI beyond 74% and up to 100% will be permitted under Government route. For existing FDI approved holders/defence licensees, infusion of fresh foreign investment up to 49% resulting in change in equity/ shareholding pattern can be done by making declaration within 30 days (earlier Government approval was required).

***“There are investment opportunities in defence sector. With relaxed FDI norms, one of the world’s biggest militaries invites you to come and make products for it.” - PM Narendra Modi***

## Pharmaceuticals

With the objective of making the pharmaceuticals sector more attractive to foreign investors, FDI upto 74%, under the automatic route, has been permitted in brownfield pharmaceutical projects. FDI beyond the threshold of 74% is allowed through the Government approval route.

## Medical Devices

100% FDI, under the automatic route, has been allowed in manufacturing of medical devices with the intent of encouraging FDI inflows in the medical devices industry.



## **Insurance Intermediaries**

100% FDI has now been permitted in Insurance Intermediaries including insurance brokers, re-insurance brokers, insurance consultants, corporate agents and third party administrators, surveyors and loss assessors.

## **Coal Mining**

100% FDI under the automatic route has been permitted for sale of coal and for coal mining activities (including associated processing infrastructure). This reform will attract global investors and benefit the sector with more technology adoption and improve the operational efficiency of the sector.

## **Single Brand Retail Trading**

FDI upto 100%, under the automatic route, has been permitted in the Single Brand Retail Trading sector. Government has further eased the local sourcing conditions of SBRT.

## **Railways**

100% FDI under automatic route has been permitted in the construction, operation and maintenance of specified rail infrastructure projects. These reforms will help promote industrial development and bring international best practices and latest technologies to the sector.

## **Construction Development**

FDI reforms have also been undertaken in the Construction Development sector wherein minimum area requirement for serviced plots have been removed, minimum capitalization have been reduced and foreign investors have been permitted to exit on completion of the project or development of trunk infrastructure, etc.



## Civil Aviation Sector

Foreign equity cap in non-scheduled air transport services has been increased from 74% to 100% under the automatic route. Additionally, 100% FDI, under the automatic route, has been allowed in brownfield airport projects.

## Satellites establishment and operation

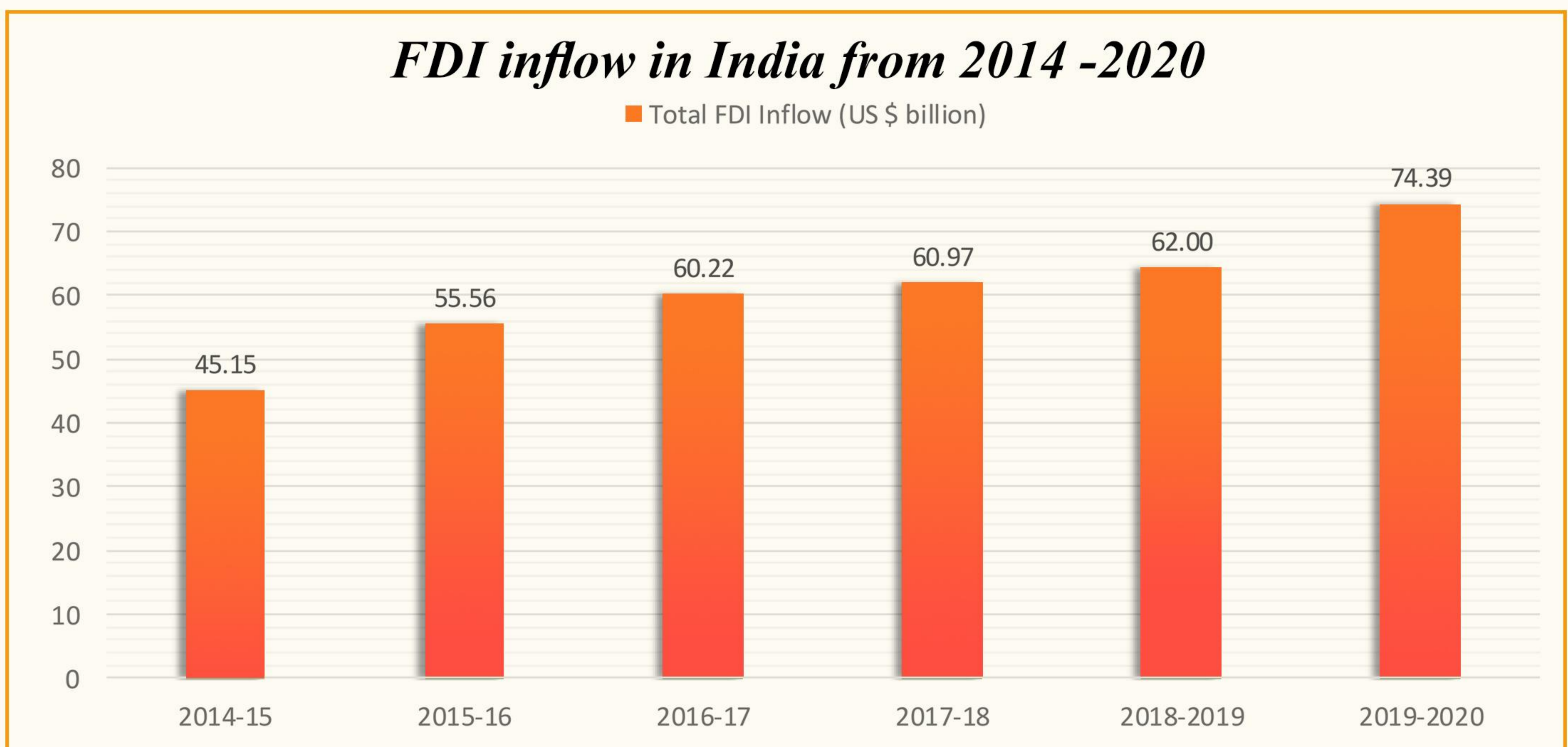
The FDI caps for the sector has been changed from 74% under the Government approval to 100% under the Government approval route.

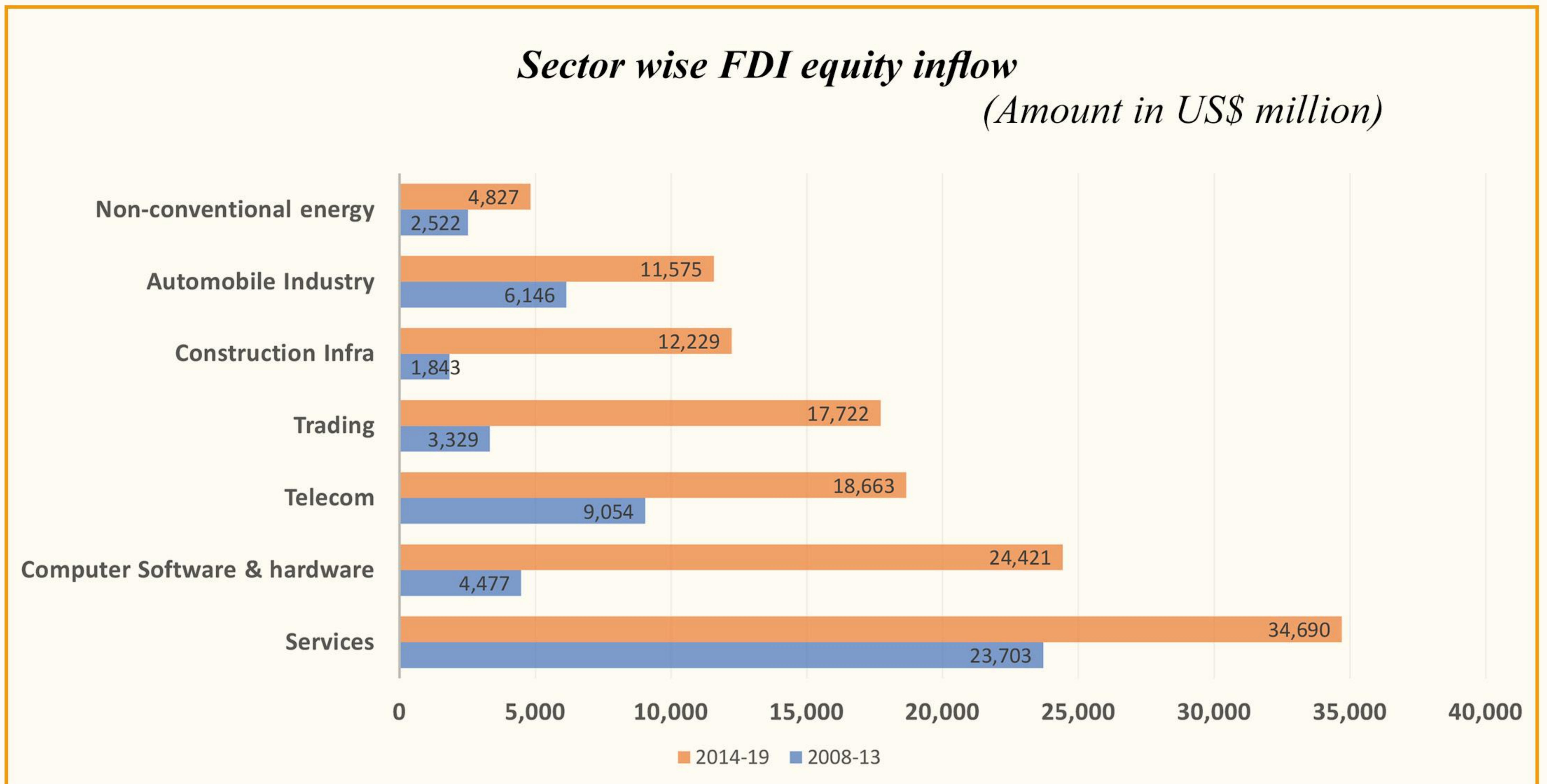
## Broadcasting

100% FDI under the automatic route has been permitted in Teleports, Direct to Home (DTH), Cable Networks (Digital), Mobile TV, Headend-in-the sky (HITS).

## SUCCESS IN NUMBERS

*“India now most open economy in the world for FDI”- PM Narendra Modi*





## FDI REFORMS: WHAT'S NEXT?

The Central Government is committed to make India an attractive destination for investments, the same is reflected in the reforms being implemented by the Government. The continuous liberalisation of the FDI regime in India has significantly boosted India's image at the global level. India has now become a preferred destination for foreign investment. In the words of Hon'ble Prime Minister Narendra Modi, "India remains the most open economy in the world. We are laying a red carpet for all global companies to come and make their presence in India".

The Central Government is engaged in the review of the FDI policy on an ongoing basis, with a view to attract larger volumes of FDI into the country. It engages in frequent and intensive consultations with stakeholders including apex industry associations and representatives of corporations across sectors. The intent of these consultations and Government reform is to make the FDI policy more investor friendly and ensure India remains an attractive and investor friendly destination.



## THUMBS UP BY STAKEHOLDERS/INVESTORS

<p><i>“Climate for doing business in India is positive”</i></p>	<p>Frans Van Houten Philips, CEO of Royal Philips</p>
<p><i>“India and the US should now aim at taking bilateral ties to its “full potential” where both countries will need to manage their political imperatives to “unleash greater trade and investment”</i></p>	<p>Nisha Biswal, president of the US-India Business Council (USIBC)</p>
<p><i>“Will surpass \$10 billion investment for India”</i></p>	<p>Masayoshi Son, Founder &amp; CEO of Softbank</p>
<p><i>“India is probably the only place where entrepreneurial energy is able to scale up, not just start”</i></p>	<p>Satya Nadela, Microsoft</p>
<p><i>“Growth prospect intact, India is a big opportunity”</i></p>	<p>Anuj Ranjan, Managing Partner, Brookfield</p>
<p><i>“Deal activity in commercial real estate, namely office, in 2020 has not only been the highest but transaction sizes have also changed, and become bigger,”</i></p>	<p>Shobhit Agarwal, Managing Director and Chief Executive Officer, Anarock Capital</p>



## FDI REFORMS MAKING A DIFFERENCE

**FDI inflows surge 18% in 2019-20 to record \$74 billion**

TNN | Updated: May 29, 2020, 11:21 IST

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**India receives highest ever FDI in Apr-Aug FY21: Government**

**Synopsis**

"FDI equity inflow received during FY21 (April to August, 2020) is \$27.1 billion. It is also the highest ever for first five months of a financial year," the ministry said.

**India will be growing faster than China next year, says Mark Mobius**

ET | Last Updated: Nov 17, 2020, 03:36 PM IST

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**FDI equity inflows into India cross \$500 billion milestone**

PTI | Last Updated: Dec 06, 2020, 11:38 AM IST

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THE DAILY FIX

**The Daily Fix: Modi's efforts to improve India's ease of doing business rankings are paying off**

Everything you need to know for the day (and a little more).

Rohan Venkataramakrishnan  
Nov 01, 2017 · 09:43 am

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