Second set of reforms: FDI this time and more

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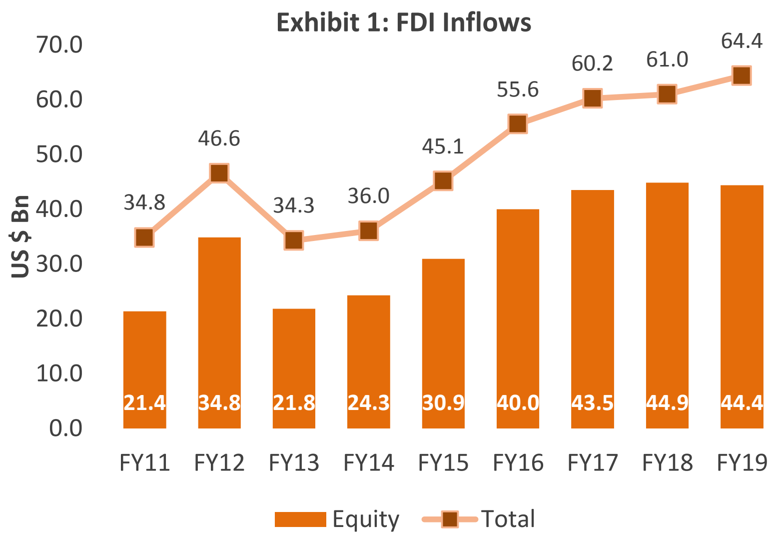
This report summaries the announcements made by the government regarding the relaxation of FDI norms in certain sectors and the stimulus package towards the sugar industry.

I. FDI

Over the past couple of years, the government has been undertaking various measures to attract the foreign investment in India. With a view to boost the foreign investment in various sectors, sectors with substantial capital requirements were identified and the rules and regulations for such sectors were relaxed. Various sectors were opened up and/or the norms were eased for investment purpose (Table 1). These measures have helped create a congenial investment climate in the country and have been instrumental in escalating India's position in the ease of doing business ranking. (India rank jumped 23 positions to the 77th rank in 2019).

Nevertheless despite various measures undertaken by the government to attract investment the FDI inflows witnessed a slowdown in FY19.

- Cumulative FDI inflows since April 2000 aggregated to \$609.8 billion while the cumulative FDI equity inflows amounted to \$420 billion, accounting for 69% of the total FDI inflows.
- The total FDI inflows in India grew consistently since FY13 and aggregated to \$ 64.4 billion in FY19.
- On the contrary, FDI equity inflows contracted for the first time in the past 6 years by (-) 1% to \$44.4 billion \$ 491 million lower than inflows worth \$44.9 billion in the previous year.
- The contraction in the equity inflows during the year can partly be ascribed to 2017 US tax reforms, which led to repatriation of earnings of the foreign companies held with foreign affiliates. In addition, the rising interest rates in the advanced economies have prompted the outflows from the other countries in the uncertain economic climate.



Source: DIPP

Table 1: Sector wise FDI relaxation

Under automatic route	Under government approval
Existing	
Pharmaceuticals	Satellites
Industrial parks	Brownfield projects
Duty free shops	Aviation- scheduled and regional air transport services
Credit Information Companies	Food product retail trading
Plantation sector	Core investment company
Petroleum and natural gas	Banking and public sector (20%)
Construction Development	Digital media (49%)
Aviation	Multi-Brand Retail Trading (51%)
Mining	Broadcasting Content Services (49%)
Trading	Air transport services (above 49%)
E commerce	Private sector banking (above 49%)
Financial services	Biotech – Brownfield (above 74%)
Railway Infrastructure	Defence (above 49%)
Media and Broadcasting	Telecom (above 49%)
Agriculture and animal husbandry	Pharma – Brownfield (above 74%)
Airports (Greenfield + Brownfield)	Healthcare – Brownfield (above 74%)
Auto components	Private security agencies (above 74%)
Automobile	Print media (26%)
Chemicals	
Gems and jewellery	
Manufacturing	
Asset Reconstruction Companies	
Ports and shipping	
Renewable energy	
Roads and highways	
Single Brand Retail Trading	
Textiles	
Hospitality and Tourism	
Infrastructure Company in the Securities Market (49%)	
Insurance (Up to 49%)	
Medical devises (up to 100%)	

Pension (49%) Petroleum refining by PSUs (49%) Power exchanges (49%) Air transport services (up to 49%) Private sector banking (up to 49%) Biotech – Brownfield (up to 74%) Defence (up to 49%) Telecom (up to 49%) Pharma – Brownfield (up to 74%) Healthcare – Brownfield (up to 74%) Private security agencies (up to 74%)	
New sectors	
Coal mining and associated infra Contract manufacturing	Digital media (26%)

Source: DIPP

Government tweaks FDI norms for the retail, digital media, coal mining and contract manufacturing industries.

- **Retail Industry**

Single-brand retailers with over 51% FDI had to locally source 30% of the value of goods sold. However, the Cabinet relaxed the rules; this target can be averaged out during the first five years, and thereafter met annually. All procurements made from India will be counted toward local sourcing, regardless whether the goods are sold in India or exported making FDI easier for foreign retailers. Also, companies in the single-brand space can now also start online retailing without opening brick-and-mortar stores first, something that was not allowed earlier.

- **Coal Mining**

- In the coal mining sector initially 100% FDI was allowed under automatic route for coal & lignite mining for captive consumption by power, steel and cements units.
- 100% FDI via the automatic was allowed for the setting up of coal washeries. The catch however was that the FDI firms could only sell washed coal to those units that supply raw coal for processing, and not in the open market.
- Coal mining/production has attracted around $ 27.7 million cumulative FDI inflows during April 2000 to March 2019 (which constitutes 0.01% share of the total FDI inflow).
- The government has permitted 100% FDI under automatic route for the sale of coal, coal mining and for associated processing infrastructure subject to certain covenants. (Associated Processing Infrastructure includes coal washery, crushing, coal handling, and separation (magnetic and non-magnetic))
- Indian coal mining can now potentially attract international players to create an efficient and competitive coal market. It can also result in improvement of coal mining from the existing mines due to the onset of more sophisticated mining techniques.

- **Contract manufacturing**

- The manufacturing sector was already provided for the 100% FDI investment under the automatic route, which did not cover the contract manufacturing.
- As per the new regulation announced, contract manufacturing will be eligible for 100% FDI under the automatic route.

- This can help give impetus to the Make in India initiative and market India as a contract manufacturers hub as well.

- **Digital Media**
- The existing policy allows 49% FDI under government approval route in Up-linking of 'News & Current Affairs' TV Channels and 26% in the print media sector.
- As per the new announcements it has been decided to permit 26% FDI under government route for uploading/ streaming of News & Current Affairs through Digital Media.

II. Boost to Sugar industry and farmers' income

Announcement

The CCEA announced export subsidy at Rs.10,448 per tonne to sugar mills for the sugar season 2019-20. This will lead to estimated expenditure of about Rs.6,268 crore. The subsidy will be provided for expenses on marketing costs including handling, upgrading and other processing costs, costs of international and internal transport and freight charges. It will be applicable to export of up to 6 million tonnes of sugar limited to Maximum Admissible Export Quantity (MAEQ) allocated to sugar mills for the sugar season 2019-20.

Impact

The measure announced by the government comes as a relief to sugar industry. The impact of this announcement however is expected to be seen only when sugar exports start to materialize and the pace at which exports would take place in sugar season 2019-20. Till then, we expect sugar prices to be under pressure and remain range bound or increase moderately and average in the range of Rs.34-Rs.35 per kg in the coming months due to higher sugar inventories. This is expected to hold even when sugar production is estimated to fall by 14.4% y-o-y to 28.2 million tonnes during the sugar season 2019-20 as opening stock for the season is expected to stand at level of around 14.2 million tonnes.

The wholesale sugar prices had remained in the range of Rs.31.7 to Rs.33.6 per kg during the period October 2018 to July 2019 which then increased and averaged at Rs.34.2 per kg during 1 August 2019 to 28 August 2019.

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