

Indian Government Relaxes Restrictions on Foreign Direct Investment

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The Indian government announced on June 20, 2016 new rules for foreign direct investment (FDI), allowing for up to 100% FDI in certain sectors, including defense and civil aviation. The changes also relax the local sourcing requirements for single-brand retail companies with innovative technologies. Indian Prime Minister Narendra Modi said that the new policy would make India “the most open economy in the world for FDI.”

The government will still need to approve FDI in the defense industry, but the new rules eliminate the requirement for access to “state of the art” technology and increase FDI from 49% to 100%. Civil aviation will also benefit, with the rules allowing for automatic approval up to 49% and government approval thereafter. Foreign investment in existing airport projects increased from 74% to 100%, with all FDI receiving automatic approval. Most other sectors will receive automatic approval, including up to 100% FDI for certain telecommunications companies.

In addition to eliminating many FDI caps, the new policy also exempts single-brand retailers from the local sourcing requirements for three years. In the past, India mandated that companies sell at least 30% local goods, but now companies will have three years to meet that threshold. Businesses producing “cutting-edge” technologies could also qualify for an additional five-year exemption from the requirements.

While it is anticipated that single-brand and self-branded retailers, as well as defense-oriented manufacturers, will be the first groups to take advantage of the new policy, overall foreign investment in India will likely increase dramatically as U.S. companies use the new rules to increase their presence in the world’s fastest-growing major economy. This FDI policy change marks yet another important step in Prime Minister Modi’s quest to welcome investors from all over the globe into the new Indian economy.

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