

6. Cabinet Approves Proposal for Review of FDI Policy on Various Sectors

Prelims: Economics

Prelims Tag: Economics, FDI, FDI Policy

Mains: GS-III- Effects of liberalization on the economy, changes in Industrial Policy and their effects on Industrial Growth.

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Why in News?

- ▶▶ The Union Cabinet has approved the proposal for Review of Foreign Direct Investment on various sectors.

FDI:

- ▶▶ Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.
- ▶▶ Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.
- ▶▶ FDI are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.

Major decisions on FDI by the Cabinet:

- I. 100% FDI under automatic route in coal mining and associated infrastructure
 - ❖ It will attract international players to create an efficient and competitive coal market.
- II. 100% FDI in contract manufacturing under automatic route
 - ❖ Manufacturing through contract contributes equally to the objective of Make in India.
 - ❖ FDI now being permitted under automatic route in contract manufacturing will be a big boost to Manufacturing sector in India.
- III. Relaxing FDI rules for single brand retail; expands definition of 30% domestic sourcing

- ❖ It 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.
- IV. Online retailing under single-brand retail; relaxing rule of mandatory brick-and-mortar store
- ❖ 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.

Significance of the move:

- ▶▶ The above 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.
- ▶▶ It will result in making India a more attractive FDI destination, leading to benefits of increased investments, employment and growth.

