

## India liberalizes foreign direct investment policy for certain sectors

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In line with the 2019 budget announcements, the Indian Government introduced the further liberalization of its foreign direct investment (FDI) policy on 28 August 2019<sup>1</sup> with the intent of attracting higher FDIs and promoting the "Make in India" initiative of the Government. The changes in the FDI policy will be effective from the date of issuance of the notification by the Reserve Bank of India.<sup>2</sup>

### Contract manufacturing

- FDI up to 100% ownership is available under the "automatic route"<sup>3</sup> for contract manufacturing activities. Manufacturing activities can be undertaken either by the investee entity or through contract manufacturers in India, whether on a "principal to principal" or "principal to agent" basis.

### Single brand retail trading (SBRT)

- An SBRT entity (with foreign investment exceeding 51%) is required to procure a minimum of 30% of its goods (by value) from Indian sources. In calculating the local sourcing requirement, any acquisitions of Indian goods are included, regardless of whether the goods are sold in the Indian market or are exported, a change from a five-year time limit to the inclusion of exported goods in the calculation.

- ▶ SBRT entities will be able to include the value of the entire procurement of goods from Indian sources for their global group's operations in the local sourcing requirement, rather than a per year incremental increase in Indian purchases by the global group.
- ▶ The procurement of goods from India can be undertaken by the SBRT entity or its group companies (resident or nonresident), or indirectly through a third party.
- ▶ SBRT entities will be permitted to sell products through e-commerce channels before setting up brick-and-mortar stores,<sup>4</sup> conditional on the SBRT entity opening brick-and-mortar-stores within two years of the commencement of e-commerce sales.

### Digital media

- ▶ FDI up to 26% ownership is available under the "Government approval route"<sup>5</sup> for uploading or streaming of news and current affairs through digital media. Additional details of this revised policy may be released by the Government.

### Coal mining

- ▶ FDI up to 100% ownership is now feasible under the "automatic route" for the coal mining and sale activities (including any associated processing infrastructure such as coal washery, crushing, handling and separation), broadening FDI's eligible activities.

### Implications

The changes made by the Government are anticipated to provide a boost to foreign investment in India. The contract manufacturing FDI policy may lead to the establishment of additional Indian facilities, particularly in light of recent global trade developments, and creates an opportunity for employment growth, promotion of exports and the expansion of India's role in global supply chains.

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### Endnotes

1. Refer to Press Note 4 issued on 18 September 2019.
2. The notification has not been issued at the date of this Alert.
3. No specific government approvals are required prior to establishing a company undertaking such activities in India.
4. Refers to companies that have a physical presence (e.g., a retail shop in a building) and offer face-to-face customer experiences.
5. Government approvals are required prior to establishment.

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