Freeing up FDI

The National Democratic Alliance (NDA) has amended foreign direct investment (FDI) rules for the fourth time in three years to liberalize the investment regime for single-brand retail, real estate brokerage, aviation and power exchanges. These are welcome decisions. But a note of caution is still warranted.

The 30% local sourcing rules in single-brand retail continue to be a deterrent for investors, especially in industries in which India doesn't already have evolved manufacturers. The relaxation for companies with "state-of-the-art" or "cutting edge" products is unclear at present because of confusion about what these terms mean.

Single-brand retail has been open to 100% FDI since 2011; the main draw for investors will be multi-brand retail—this has been pending due to a fear of retaliation from *kirana* store owners.

By allowing 49% FDI in Air India, the government will likely get more bidders and hence a better valuation. But it should clarify, like in the Maruti Suzuki case, that it will not interfere in the management after the disinvestment.

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