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WORK IN PROGRESS

Changes in FDI policy are welcome, could help counter disruptive effects of demonetisation and GST

THE CREDO OF "ease of doing business" is behind changes in the Foreign Direct Investment (FDI) Policy announced by the Union cabinet on Wednesday. It has approved 100 per cent FDI for single-brand retail via the direct route — the earlier policy allowed foreign players a 49 per cent stake under the automatic route. FDI beyond 49 per cent in single-brand retail required government approval. The decision to allow foreign airlines to invest up to 49 per cent in Air India will pave the way for divestment of the state-run carrier. Permitting 100 per cent FDI in construction businesses through the automatic route is, likewise, aimed at reversing the past two years' downturn in the real estate sector. The decision to allow Foreign Institutional Investors and Foreign Portfolio Investors to invest in power exchanges through the primary market will help inject capital and global best practices in these vital interfaces between buyers and sellers of electricity and make the market more competitive. So far, FIIs and FPIs were only allowed to transact in the secondary market, where previously-issued stocks, bonds and futures are bought and sold.

Wednesday's policy changes should be seen in conjunction with a range of recent reforms, including the Real Estate Regulation Act (RERA), GST and the Insolvency and Bankruptcy Code (IBC). RERA, for example, is intended to instil financial discipline and improve transparency in the real estate sector. But the construction business needs to do well for the policy to have its intended effect of benefiting the home-buyer. The decision to free investments in the sector from government regulations should help the construction business tide over the disruptive impacts of demonetisation and GST. With the glitches of GST expected to be ironed out this year, idling time at check-posts for clearance of goods across state borders will come down significantly, thereby speeding up logistics. This will mean a range of operational and cost advantages for global companies. Wednesday's policy changes are likely to further improve the environment for business. Moreover, with the IBC coming into full play this year, money locked up as stressed assets will be up for redistribution. With the latest FDI policy changes, the process of capital infusion is likely to acquire further momentum.

Wednesday's reforms bring Air India on par with other airlines. Allowing foreign airlines to invest up to 49 per cent of their paid up capital in Indian companies was among the reasons for the country's aviation boom. But Air India, which remained an outlier to this development, has accumulated a debt of nearly Rs 52,000 crore. While it is too early to predict the time it will take to change the airline's fortunes, the next logical step should be to extend reforms to other white elephants of the economy.