Modi opens India to foreign investors

Rule change Global titans Apple and Ikea could benefit from a long-awaited introduction of more business-friendly policies in the world's fastest-growing major emerging market, write **Geeta Anand** and **Hari Kumar**.

The Indian government announced sweeping changes on Monday to throw open its economy to foreign investment, providing a new path for global titans such as Apple and Ikea to capitalise on the country's growth, the fastest among the major emerging markets.

The long-awaited rules, instituted through executive order, reinforce the government's plan to develop more business-friendly policies as the country looks to spur job creation and maintain its momentum. Domestic and international companies have long complained about the difficulty of doing business in India, a factor that has stymied investment and growth.

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the country's infrastructure deficiencies and sprawling bureaucracy, the changes represent a greater shift away from the socialist and protectionist policies of India's modern post-independence history. The new rules will allow foreign investors to establish 100 per cent ownership in companies involved in defense, civil aviation and food products, although with government approval.

Foreign investors will also be allowed to buy up to 74 per cent of Indian pharmaceutical companies without seeking government approval. The government has similarly relaxed regulations that have made it difficult for companies such as Apple and Ikea to establish retail operations in India.

The election of Prime Minister Narendra Modi in 2014 was widely expected to lead to more market-friendly policies, which he had championed in his years as the chief minister of Gujarat state. The delay in bringing them about had led to widespread criticism that he was not moving fast enough to stimulate the economy.

The timing of his announcement is almost certainly aimed at reassuring international markets. The rules were rolled out just two days after the surprise resignation of the widely respected chairman of the central bank, Raghuram Rajan, whose departure has prompted uncertainty about the government's reform plans.

"Modi needed to send some signals to show government is bringing in economic reforms and they will happen with or without Rajan," said Harsh V. Pant, a professor of international relations at King's College in London. "The government is trying to recapture its mojo on the economic front."

Rajan, a popular figure among foreign investors, had enhanced India's standing in international markets but had become controversial domestically, in part because of his crackdown on the debt-strapped banking industry, but also because critics wanted him to lower interest rates faster to stimulate domestic growth. His announcement that he would leave his job as governor of the central bank implied he was moved at least in part by the preferences of the Modi government.

India began life as an independent country in 1947 with a heavily controlled, protectionist economy. It drastically changed course in 1991 when a balance-of-payments crisis forced the government to loosen its controls on industry and reduce barriers to imports, among other things. Those changes are credited with spurring India's transformation into the fastest-growing large economy in the world. But its growth rate of 7.6 per cent is too slow to provide jobs for the 1 million people entering the workforce each month. The previous government, and Modi's, have promised further liberalisation.

Prime Minister Narendra Modi, and workers train at e-commerce company Flipkart in Bangalore, below left, and an Indian worker arranges steel tubes at a factory in Jordan. PHOTOS: GETTY IMAGES, NYT, AP

Modi has struggled to enact the major changes he promised, such as making it easier for companies to acquire land, because his party does not control the upper house of Parliament. But Monday's policy shifts require only the approval of his top administration.

Still, Modi is expected to win passage in July of a law to allow a uniform goods and services tax in the country, in place of the state-by-state taxation, making it easier for businesses to operate nationally. The tax change and Monday's new rules on foreign investment, can have as significant an effect on India's economy as the 1991 reforms, some experts say.

"The set of reforms of the past two years could be of much greater significance than what happened in 1991," said Surjit Bhalla, a New Delhi-based columnist and macroeconomic adviser on India to the Observatory Group consultancy.

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Particularly significant on Monday is the change allowing 100 per cent foreign investment in defence companies in India, Bhalla and others say.

India has been struggling to modernise its military in step with the growing strength and aggressiveness of China.

Last year, in trying to stimulate foreign investment in defence, India allowed foreign ownership of up to 49 per cent in defence companies but received little response.

"With this liberalisation, we would expect again some manufacturing activity in defence products to come in," said Shaktikanta Das, secretary of economic affairs at the Finance Ministry. "The driving force behind the whole thing is that all these investments should facilitate creation of jobs."

Previous rules, which all but required a local majority stake, had scared off foreign weapons makers, as they feared losing control of valuable technology, said Ben Moores, a defence analyst at IHS Jane's, a global intelligence firm.

Moores said the change would expose the big Indian defence companies, such as Tata Advanced Systems and Hindustan Aeronautics, to competitive pressures for the first time.

The Indian government plans to award more than 800 defence contracts on combat aircraft, tanks, anti-submarine equipment and more worth $US76.5 billion ($102 billion) during the next 10 years, he says.

There were benefits for smaller Indian

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Dr Raghuram Rajan captured global attention by resigning as governor of the Reserve Bank of India, signalling the government was not supporting him. PHOTO: NYT

companies, Moores said. Their larger rivals would potentially face direct, heavyweight competition from abroad, and smaller companies would have opportunities to partner with outside defence contractors to gain expertise and domestic market share.

Defence contractors such as BAE Systems, which Moores said had been burned by previous experiences of trying to operate in India, may now see a reason to try again. General Dynamics, which has a tank-making subsidiary, can also benefit from manufacturing inside India. The French company Dassault, which is selling Rafale fighter aircraft to India, may find a way to

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sweeten the $US8.9 billion deal.

India has also relaxed its requirements that single-brand retail outlets buy 30 per cent of their supplies locally.

This requirement has posed an obstacle to foreign investors who have been unable to find local sources. Apple, eager to expand its retail operations in India, had sought an exemption from this local sourcing requirement this year but the Indian government appeared reluctant to comply.

Under the new rules, foreign retail outlets will be given a three-year reprieve on the local sourcing requirement and that may be extended to an additional five years, if the products being sold are state-of-the-art and cutting-edge technology.

An Apple spokeswoman says the company is evaluating the new rules and has no immediate comment. Apple's chief executive Tim Cook visited India this year and met with Modi to discuss retail and manufacturing in the country.

Arvind Singhal, chairman of Technopak, a technology consulting firm in New Delhi, says the new rules remove a large hurdle to foreign single-brand retailers such as Apple that want to open stores in India.

"This will permit Apple to open its own stores and control the complete experience of the brand and the product," Singhal said.

The new pharmaceutical rules, allowing foreign companies to buy portions of Indian drug companies, are also seen as positive development.

"This is a welcome step in the right direction," said Kiran Mazumdar-Shaw, chief executive of Biocon, one of India's biggest biotechnology firms.

But some consumer advocates worry that easier foreign investment can also undermine India's role as the supplier of inexpensive generic drugs to poor countries throughout the world.

"This is perhaps going to make it even easier for the bigger pharmaceutical companies to control India as a competitor in the global marketplace," said Tahir Amin, co-founder of the Initiative for Medicines, Access & Knowledge, a New York-based non-profit organisation that works on access to medicines by challenging certain patents on drugs. "My prediction is the Indian generic marketplace is going to look very different in five years."

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