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FDI easing, other steps may help revive growth

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A multitude of prompt economic measures were announced by the government recently to jumpstart investments and bring the economy back on a solid growth track. These measures will infuse greater investor confidence and encourage investments in the economy. Industry is greatly heartened by the fact that the government is cognizant of various issues such as subdued demand and private investments and has adopted a consultative approach to policy-making that will best meet the needs of the economy.

This strategy indicates the government's strong partnership approach with industry. It has listened to the inputs put forward by industry in the recent past and many of the changes announced over the last few weeks are in alignment with the solutions that we have suggested. This partnership strategy is welcome at a time when headwinds to global growth are visible.

In a number of announcements spread over a week, the government introduced several measures and reforms, including easing of FDI norms in single brand retail to create a more investor-friendly policy environment. The easing of local sourcing norms, which now allows single brand retail companies to limit domestic sourcing to just 10 per cent, provided they export 20 per cent of their product to other countries, will enhance ease of doing business and will open doors to some of the major global brands to expand operations in India. This in turn will boost consumption and investment and make India a more attractive FDI destination.

Additionally, the government's decision to allow FDI retailers to open online stores, as opposed to the earlier mandatory requirement of first setting up brick and mortar shops, will encourage more foreign players to enter the Indian market. This would significantly ease capital pressure on single brand retailers and allow them to build online businesses before investing in physical stores. Online sales will also spur employment in the economy by creating more jobs in sectors such as logistics, customer care, digital payments, etc. Further, retail trading will boost e-commerce and aligns well with the government's Digital India initiative.

The government also cleared 100 per cent FDI under the automatic route for contract manufacturing. While 100 per cent FDI was allowed for manufacturing under the present policy, there were no specific guidelines for contract manufacturing, which led to a lack of clarity for companies that were outsourcing manufacturing activities to others. The policy relaxation is a welcome move as this would benefit many foreign players, which operate on contract manufacturing. Contract manufacturing is an important and integral part of the robust value chain that is required to be set up in India if we are to become a global electronics manufacturing and export hub. It is encouraging that several global electronic companies already have a manufacturing footprint in India, both in SEZ and DTA zones. This policy impetus will add further to our CKD and SKD facilities.

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The Centre's decision of permitting 100 per cent FDI in the coal and lignite sectors under the automatic route, including sale and mining as well as associated infrastructure activity, is a step in the right direction as this will now open up the sector to private sector participation and create an efficient and competitive coal market. Removal of FDI restrictions would also attract greater investments and global miners, which will help these sectors to benefit from the latest technology and enable them to lower fuel costs. The move will also help create greater employment in the coal bearing areas.

The government's decision to cap 26 per cent FDI in digital media recognises the potential of digital content and would benefit the online media industry by helping them raise additional capital from international players. However, greater clarity is required with respect to the definition of digital media and who all would be impacted by the policy.

Continuing with its agenda of spurring economic growth and taking the process of bank consolidation forward, the government announced the mega merger of 10 public sector banks (PSBs) in India into four entities. The move will bring down the number of PSBs in the country from 27 to 12. Industry welcomes this move as this will create fewer but stronger banks, with bigger and robust balance sheets and will enhance their lending capacity. This will increase overall efficiency and profitability of the banking sector as merged entities would be able to raise resources at competitive costs and reduce greater lending costs. Better management practices and enhanced liquidity in the system in turn will promote long-term economic growth.

Other bank governance measures such as strengthening the Board Committee System and the decision to double the threshold of the Management Committee for loan sanctions, will help the committee to focus on higher value loan proposals and contribute to a strong and globally competitive banking sector. While the decision to allow the PSB board to appoint chief risk officers from the market will benefit the sector from the best talent in the market, measures such as empowering the bank with four executive directors with one exclusively focusing on technology will lead to better operational efficiency.

To further improve the governance and efficiencies of PSBs, the P.J. Nayak Committee recommendations should be implemented. To ensure continuity in leadership and policies, ensuring a minimum five-year tenure for bank chairmen and a minimum three-year tenure for executive directors should be in place.

To enable capital infusion and efficiency in public sector banks, the Confederation of Indian Industry (CII) also recommends announcing a plan for reducing government stake in PSBs to 51 per cent, which should be further reduced to 33 per cent subsequently.

All these measures are expected to create a positive impact in the Indian economy by kickstarting investments and consumption and creating an environment conducive for higher growth and development. We are confident that the reforms pace will continue as the government takes strategic directions to revive growth and push the country in achieving its target of becoming a $5 trillion economy by 2025.

The writer is the director-general of the Confederation of Indian Industry