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New opportunities for Singapore investors in India's building industry

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India is considered to be one of the fastest-growing global economies and ranked among the top three most attractive destinations for inbound investments.

In November 2015, India further liberalised its foreign direct investment (FDI) rules to encourage more foreign investment into the country. The liberalisation is twofold:

- New sectors including plantation activities and duty-free shops have been opened up for foreign investment.
- Existing FDI conditions have been liberalised in various sectors such as construction development, defence and single-brand retail trading.

Of these changes, the liberalisation in the construction sector is most interesting from Singapore's perspective. After all, Singapore has had tremendous experience in building its own infrastructure, putting the city-state in a good position to share its construction development expertise with India.

Previously, FDI in the construction sector in India was permissible under the "automatic route" (without the need to seek approval from the Indian government) only if certain conditions were met.

The critical conditions entailed a minimum development area of 20,000 square metres, minimum capitalisation norms of US$5 million and exit restrictions on investors. All these translated to difficulties for many small and medium-sized players to enter the Indian construction sector.

While India has started liberalising its FDI rules over the years, this latest round of liberalisations sees the removal of restrictions on minimum area development and minimum capitalisation norms for FDI in construction development.

Further, the Indian government has decided to permit foreign investors to exit and repatriate foreign investment before the completion of a project under the automatic route, provided that a lock-in period of three years (calculated with reference to each tranche of foreign investment) has been completed. This will allow foreign investors to exit under unforeseen circumstances without requiring any specific approvals.

Additionally, the transfer of stake from one non-resident to another non-resident without repatriation of investment will be subject to neither any lock-in period nor any government approval. This also allows foreign investors with more exit options from their investments in the Indian construction sector.

Businesses may also now establish wholly owned companies without any conditions relating to minimum capitalisation norms and minimum area development to enter the country's construction market. This is good news for foreign investors, including companies from Singapore which may have had to exit the market in the past due to joint venture issues. Beyond Singapore's experience in construction development, the case for more Singapore-India cooperation is strengthened by the two countries' physical proximity, as well as historical and cultural ties.

Singapore and India have also been strengthening their economic links over the past two decades.
In December 2014, for example, Singapore signed an agreement with the Andhra Pradesh government to prepare a master plan for a new capital city, Amaravati, in the southern Indian state. In November 2015, the Singapore Cooperation Enterprise (a subsidiary of International Enterprise Singapore) also signed three memorandums of understanding with India to collaborate in developing urban-sector projects.

Following the Indian government's efforts to liberalise FDI rules, Singapore surpassed Mauritius to emerge as the top foreign investor in India between April and September 2015. During this period, total FDI in India from Singapore was about US$6.7 billion.

Looking ahead, Singapore investors can expect even more opportunities to surface in India's construction sector.

Currently, the Indian construction industry is valued at over US$126 billion and is expected to grow to some US$140 billion by 2017. The Indian government has also projected US$1 trillion worth of investments for the infrastructure sector between 2012 and 2017. Of this, 40 per cent has been proposed to be funded by the private sector.

India's Smart Cities initiative that is expected to drive demand for urban solutions across the country, coupled with the huge demand for funds in real estate and the liberalisation of FDI-related regulations, means that the foreign flow into India in the coming years is likely to increase further. That said, India's business environment comes with inherent challenges. The lack of existing infrastructure, a relatively undeveloped intellectual property rights regime, and complex tax and administrative processes are all possible roadblocks.

In seizing the new opportunities arising from the liberalisation of FDI rules in India's construction sector, investors and construction companies should arm themselves with a good game plan taking into account these obstacles. If they can do so, the outcome should be rewarding.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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