Banning FDI from Neighbours

Why in News?

India has decided to ban foreign direct investments (FDI) through automatic route from neighbouring countries that share a land border with it.

Why was this decision taken?

- FDI was banned because the Chinese investors may exploit cheap valuations in the depressed economic conditions post-lockdown.
- They may pick up equity interest in select companies.
- Italy, Spain, France and Australia have already taken similar action to protect their businesses from Chinese investors.
- These investors are fishing for distressed entities in need of cash in the post-COVID-19 scenario.

What is the current investment status?

- China's investment in India has been on an up curve in the last 5 years.
- According to a Brookings India study, the total current and planned investment by Chinese entities is over $26 billion.
- Chinese capital is invested in brick-and-mortar industries, technology and fintech start-ups.
- The move to control Chinese investment in Indian companies was always on the cards and COVID-19 was a good excuse to pull the trigger.
- The decision to introduce a layer of government approval is valid in the current circumstances.
- But the government could have adopted a more nuanced approach.

What approach the government could have adopted?

- **Greenfield investments** should have been kept out of the purview as they create new capacities and businesses in the country.
- [Greenfield investment is a type of FDI in which a parent company creates a subsidiary in a different country, building its operations from the ground up.]
- A **distinction** should have been made based on the class of investors.
- Venture capital funds are financial investors who may not necessarily be interested in taking over and running a business.
- While the FDI route has been plugged, it is not clear what happens to

investments that come through the market route.

Source: The Hindu