Revised FDI Policy

Why in news?

India has revised its FDI policy to prevent opportunistic takeovers of firms hit by the lockdown.

What was the amendment?

- India said that an entity of a country that shares a land border with India can invest in firms here only through government route.
- This applies to "beneficial owners" who is resident of a neighbouring country - even if the investing company is not located there.
- While the note did not name any country, analysts see the amendments as aimed at possible Chinese investments.

Why was this decision taken?

- The decision came days after China's central bank had raised its shareholding in HDFC to over 1% from 0.8%.
- As of December 2019, China's cumulative investment in India has exceeded $8 billion.
- This is far more than investments by other countries that share borders with India.
- A Brookings India paper pegs the total current and planned Chinese investment in India at over $26 billion.

What was China's response?

- China has termed the move as violation of international trade principles.
- It has called for India to revise these "discriminatory practices" and treat investments from different countries equally.
- Chinese Embassy in India said that India's move violates WTO's (World Trade Organisation's) principle of non-discrimination.
- It says that India's move goes against the general trend of liberalization and facilitation of trade and investment.

What is India's argument?

- India maintains that its FDI policy is not aimed at any one country.
- It says that this move only aims to curb "opportunistic" takeovers of Indian firms, which are under strain.
- India says that the amendments are not prohibiting investments.
- It has only changed the approval route for investments.
- Many sectors in India are already subject to this approval route.

What is the ground on which India's move is discriminatory?

- India's move is seen as a discrimination against certain countries for non-security reasons.
- This may not be seen favourably on the global stage.
- Most of the countries that have tightened their investment regulations have done in such a way that it would apply to all countries.

What have other countries done?

- **European Commission** - It issued guidelines to ensure a strong EU-wide approach to foreign investment screening at such a time.
- The aim was to preserve EU companies and critical assets in areas like health, med research, infrastructure essential for security, etc.
- **Australia** - It temporarily tightened rules on foreign takeovers over concerns that strategic assets could be sold off cheaply.
- All foreign takeover and investment proposals will now be scrutinised by Australia's foreign investment review board.
- **Spain, Italy and the US** too have implemented investment-related restrictions.

Has India done this before?

- It is the first-time that a move to impose additional requirements for **certain countries** is taken.
- However, India has imposed such measures on investments into **certain sectors**.
- From 2011, the government had mandated approval for any FDI coming into the pharmaceuticals sector.
- In 2010, the government banned FDI in cigarette manufacturing.
- India had also blocked certain FDI investments during bilateral standoffs with China.

Source: The Indian Express