New FDI Rule

Why in News

The Government of India has made its approval for **Foreign Direct Investment (FDI)** by neighbouring countries mandatory.

> This revised FDI policy aims to curb opportunistic takeovers/acquisitions of Indian companies due to the current **Covid-19 pandemic.**

Key Points

- **FDI in India:** FDI is allowed under two modes - either through the **automatic route,** for which companies don't need **government approval,** or through the government route, for which companies need a go-ahead from the centre.
- **According to the new FDI policy:**
  - An entity of a country, which shares a land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, **can invest only under the Government route.**
  - A transfer of ownership in an FDI deal that benefits any country that shares a border with India will also need government approval.
    - India shares land borders with Pakistan, Afghanistan, China, Nepal, Bhutan, Bangladesh and Myanmar.
  - Investors from countries not covered by the new policy only have to **inform the RBI after a transaction** rather than asking for prior permission from the relevant government department.
- **Impact**
  - The **earlier FDI policy was limited to allowing only Bangladesh and Pakistan via the government route** in all sectors. The revised rule has now brought companies from China under the government route filter.
  - China's footprint in the Indian business space has been expanding rapidly, especially since 2014.

- **Chinese investment in India**
    - The net Chinese investment in India, **which was $1.6 billion in 2014, shot up five-folds to at least $8 billion (Rs 60,800 crore) in the next three years —** with a noticeable shift from state-driven to market-driven investment from the Chinese private sector.
    - **Official figures underestimate the amount of investment:** They neither account for all Chinese companies' acquisitions of stakes in the technology sector nor investments from China routed through third-party countries, such as Singapore.
        For instance, a $ 504-million investment from the Singapore arm of the mobile firm Xiaomi would not figure in official statistics because of how investments are measured.
    - It has been seen that the **Chinese firms have escaped the kind of scrutiny in India** that their investments have attracted in the West despite several high-profile investments and acquisitions.
    - Another concern is that there is **no clear separation between the Chinese state and private business.** They work closely in pursuing many goals.

Foreign Direct Investment

- FDI is an **investment from a party in one country into a business or corporation in another country** with the intention of establishing a lasting interest.
- Lasting interest differentiates FDI from **foreign portfolio investments, where investors passively hold securities from a foreign country.**
- Foreign direct investment can be made by **expanding one's business into a foreign country or by becoming the owner of a company in another country.**

Source: IE