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TAKEOVER FEARS: NUANCED APPROACH ON CHINESE INVESTMENTS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

The **government's decision to ban foreign direct investments (FDI)** through the automatic route from neighbouring countries that share a land border with India has raised eyebrows. This is mainly because the move is seen as aimed at Chinese investors who could exploit cheap valuations in the depressed economic conditions post-lockdown to pick up equity interest in select companies. India is not alone in this fear of "opportunistic takeovers", as Press Note 3(2020 Series) of the Commerce Ministry described it. Italy, Spain, France and Australia have already taken similar action to protect their businesses from foreign (read Chinese) investors fishing for distressed entities in need of cash in the post-COVID-19 scenario. China's investment in India has been on a sharp upcurve in the last five years. According to a Brookings India study, the total current and planned investment by Chinese entities is over $26 billion. Chinese capital is invested not just in brick-and-mortar industries but in technology and fintech start-ups where Alibaba and Tencent have funded a host of Indian names such as Paytm, Swiggy, Ola, Zomato and BigBasket. It is quite possible that a move to curb or control Chinese investment in Indian companies was always on the cards and that COVID-19 was a good excuse to pull the trigger. There has always been unease over the fact that there is a thin line that divides the state sector from private enterprise in China and several companies there trace linkages back to the security apparatus of that country.

So, while the decision to introduce a layer of government approval is probably valid in the current circumstances, the government could have adopted a more nuanced approach. Greenfield investments should have been kept out of the purview as they do not pose a threat of takeover of existing business; to the contrary, they create new capacities and businesses in the country. A distinction should also 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. SEBI has already sent out missives to custodians asking for details of Chinese holdings in listed entities. How will this be regulated? And again, what happens to FDI that comes in through entities registered in countries that do not share a land border with India but which may trace their beneficial ownership to China? And, now that the wall has been raised, approvals should be quick for investment proposals in the technology start-up space, where cash burn is high and existing investors are often tapped for a top-up investment.

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