The future of FDI from land-bordering countries in India

In April 2020, the government introduced Press Note 3 (PN3), requiring prior approval for all investments from bordering nations, including China. This move aimed to safeguard national security concerns in the wake of border tensions. While this policy addressed strategic considerations, it also created uncertainties for foreign investors, particularly those with indirect Chinese ownership or funding.

Around the introduction of PN3, in the post-pandemic time, the world was planning to realign the global supply chain for the China Plus One strategy. While India may not have benefitted from the China Plus One strategy, the countries where the global supply chain has shifted, such as Mexico, Vietnam, Taiwan, and South Korea, have seen direct beneficiaries of the US's trade diversion from China. While these nations increased their share of exports to the US, they also displayed a concomitant rise in Chinese FDI. Therefore, the world cannot completely look past China, even as it pursues the China Plus One strategy.

Four years have passed since the introduction of PN3, FDI from China has been completely cut off, and India's trade deficit—the difference between imports and exports—with China has ballooned to over USD 387 billion in the last five years, largely due to restrictions in FDI and certain key sectors can't function without sourcing from China.

Recent Developments in Sino-Indian JVs

Despite the initial stringency, recent reports indicate potential approvals for JVs with Chinese companies, provided the Indian partner holds a majority stake. These developments suggest a possible shift towards a more nuanced approach, balancing security concerns with economic considerations.

Examples of Emerging Partnerships

- Huaqin Technology, a leading design house, is reportedly in talks with Bhagwati for contract manufacturing, potentially benefiting Chinese brands like Oppo and Vivo, which are looking to leverage India's production capabilities[1].
- Dixon Technologies, a major Indian electronics manufacturer, has partnered with Longcheer Mobile India to manufacture smartphones for major global brands. This collaboration provides Dixon access to a wider customer base, including prominent Chinese players[2].
- MG Motor, a Chinese automaker, has formed a separate JV with Sajjan Jindal's JSW Group. This JV will manufacture electric vehicles in India, leveraging technology and product support from MG's parent company, SAIC. This example highlights the potential for Indian JVs to bridge the gap between Indian market needs and Chinese technological advancements[3].

This shift comes amidst recent reports suggesting the government may approve Joint Ventures (JVs) involving Chinese companies, where the Indian partner holds a controlling stake. The same is corroborated by the recent publication of Economic Survey 2023-24, in which the government mentioned that *"India faces two choices to benefit from China plus one strategy: it can integrate into China's supply chain or promote FDI from China. Among these choices, focusing on FDI from China seems more promising for boosting India's exports to the US, similar to how East Asian economies did in the past. Moreover, choosing FDI as a strategy to benefit from the China plus one approach appears more advantageous than relying on trade. This is because China is India's top import partner, and the trade deficit with China has been growing. As the US and Europe shift their immediate sourcing away from China, it is more effective to have Chinese companies invest in India and then export the products to these markets rather than importing from China, adding minimal value, and then re-exporting them."*

Expectations from the Budget on relaxation on Chinese FDI

The government of India may change its stance on Chinese FDI and allow FDI with a cautious approach to avoid further widening of imports from China. There is an expectation of getting relaxation on FDI from land border neighboring countries. The government may be open to allowing Chinese FDI on Physical FDI in certain sectors, such as high-tech electronic products, renewable energy, and advanced technology such as semiconductors and next-generation telecommunications, but may restrict digital FDI on key areas such as high frequencies trading (HFT), platform economy, and others.

Nexdigm Recommendations for PN3 for operational efficiencies

In view of the relaxation, the government of India may also consider certain improvements to PN3 that could enhance transparency and facilitate informed investment decisions:

- Beneficial Ownership Threshold: Establishing a clear threshold for "beneficial ownership" would provide much-needed clarity. Aligning this threshold with existing regulations (like the Companies Act 2013) would offer a familiar and consistent framework. A recent order was issued to Metec Electronics Private Limited by MCA on possible linkage to Metec Group of companies in Hong Kong and China.
- Time-Bound Approvals: Implementing timeframes for FIFP application approval or rejection would enhance transparency and predictability for investors.Setup an empowered committee to review the FIFP application on a fortnightly basis.

Concluding Remarks

The evolving landscape of FDI regulations in India reflects a delicate balancing act between national security and economic growth. While initial restrictions aimed to address security concerns, potential revisions to PN3, emerging JV approvals, and a prudent approach for FDI from China suggest a more calibrated approach. This could pave the way for mutually beneficial collaborations, leveraging Chinese technology and expertise to bolster India's manufacturing sector.

1. https://bit.ly/3Sk3myR
2. https://bit.ly/3YePc66
3. https://bit.ly/3zVlfNa

About Nexdigm

Nexdigm is an employee-owned, privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

We provide integrated, digitally driven solutions encompassing Business and Professional Services, that help companies navigate challenges across all stages of their life-cycle. Through our direct operations in the USA, Poland, UAE, and India, we serve a diverse range of clients, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries.

Our multidisciplinary teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

From inception, our founders have propagated a culture that values professional standards and personalized service. An emphasis on collaboration and ethical conduct drives us to serve our clients with integrity while delivering high quality, innovative results. We act as partners to our clients, and take a proactive stance in understanding their needs and constraints, to provide integrated solutions. Quality at Nexdigm is of utmost importance, and we are ISO/IEC 27001 certified for information security and ISO 9001 certified for quality management.

We have been recognized over the years by global organizations, like the International Accounting Bulletin and Euro Money Publications, World Commerce and Contracting, Everest Group Peak Matrix® Assessment 2022, for Procurement Outsourcing (PO) and Finance and Accounting Outsourcing (FAO), ISG Provider Lens™ Quadrant 2023 for Procurement BPO and Transformation Services and Global Sourcing Association (GSA) UK.

Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to ***Think Next***.

USA Canada Poland UAE India Hong Kong Japan

www.nexdigm.com

Reach out to us at *ThinkNext@nexdigm.com*

Follow us on

Listen to our podcasts on all major platforms