ISSN 2582 - 211X

LEX RESEARCH HUB JOURNAL

ON LAW & MULTIDISCIPLINARY ISSUES

VOLUME I, ISSUE IV

JULY, 2020

Website - journal.lexresearchhub.com
Email - journal@lexresearchhub.com

 ISSN : 2582– 211X

DISCLAIMER

EDITORIAL BOARD

 ISSN : 2582– 211X

ABOUT US

Lex Research Hub Journal On Law And Multidisciplinary Issues (ISSN 2582 – 211X) is an Online Journal is quarterly, Peer Review, Academic Journal, published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essays in the field of Law and Multidisciplinary issues.

Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. **Lex Research Hub Journal On Law And Multidisciplinary Issues (ISSN 2582 – 211X)** welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

IMPACT OF COVID-19 ON FDI

Authors –

Devina Sharma

Student (LL.M)

Gujarat Maritime University

Raksha Thakur

Student(LL.M)

Mumbai National Law University

ABSTRACT-

Foreign Direct Investment (FDI) is also leading to positive growth in one country's economy because of investment from another. The efficacy of the global economy depends on the investor's understanding that, if the investment is regarded with the goal of long-term investment in socio-economic growth, it is claimed that the investment makes a positive contribution to global development.

When it is short-term for-profit purposes, it may be less relevant than the long-term, and the negative impact of disinvestment. Due to government trade barriers and foreign investment policies, the FDI can also be affected and contributes to less or more successful participation in the economy as well as the country's GDP and GNP.

More than 30% of FDI flows are expected to be reduced in 2020, this is the best-case scenario which is deduced after best public health and better economic support measures are given by the government to curb COVID-19 pandemic situation.

For developing countries, FDI flows are going to drop more because it is the sector which is most impacted during this pandemic which includes manufacturing and primary sectors which forms a large part of the economy for developed countries FDI.

They also play an important role to support the economy after critical situations and during it as well it assists governments to fight such situations of a pandemic by linkage with local firms. They have reduced over the past 5 years also they remain just below the pre-crisis level throughout 2021, when health measures and support policies are not that efficient.

In this paper, our goal is to highlight the negative consequences of COVID-19 that would affect the economic scenario and also calculate the degree of predominance by the factors of a particular country's economic contribution, with specific reference to India. FDI is seen as a significant driver for developed countries economic growth by promoting domestic investment, increasing the

development of human capital, and facilitating technology transfer in the developing countries. As Covid-19 continues to spread, regulators across the world are widening the reach of their FDI screening systems to cover health care and vital infrastructure and technology to safeguard their national and economic interest.

The new foreign investment regime and their relationship with the Indian economy will also be discussed in this report. This article hopes to find a new path for Indian economy productivity and effectiveness across FDI's integrated global marketplace.

Keywords: Foreign direct Investment (FDI), COVID-19, Indian economy, Economic growth, Economic efficiency and effectiveness.

INTRODUCTION

Since 1991, India has concentrated on liberalizing the FDI system and is permitted under the automatic route that does not require prior authorization from the majority sector authority. Taking into account the healthcare sector, under this automatic route in the hospital, which includes building, up to 100 percent FDI is enabled. · Under the automated route for the manufacture of medical devices, up to 100 percent FDI is permitted. In Greenfield Pharmaceuticals, 100 % FDI is allowed, speaking of Brownfield Pharmaceuticals 74% FDI is allowed with government approval, but both are subject to other conditions.

In India words such as "national security" and "sensitive" were applicable to FDI from Pakistan and Bangladesh and to sectors such as defence, media and telecommunications in the sense of foreign investment. While the Indian FDI policy states that FDI would be subject to applicable law in sectors that come under the automatic path, including security conditions, the government has not expressly used its power to prohibit FDI in those sectors on security grounds. As Covid-19 continues to spread, regulators globally expand the scope of their FDI screening mechanisms to include healthcare and critical infrastructure and technology to protect their national and economic interests.

Various news reports suggested that Indian pharmaceutical firms have been trading at their lowest ratings in the past 8-10 years, and the falling Rupee versus the US dollar is expected to raise pharmaceutical exports. The recent hydroxychloroquine incident highlights India's importance of retaining control over critical infrastructure and technology in indigenous communities. Given the unprecedented situation created by the Covid-19 pandemic and India's heavy dependence on private healthcare, the government would need to revisit the healthcare allowability and security issues related to FDI.

Another dispute is that the Chinese central bank currently owns more than 1 percent shareholdings in HDFC Ltd. and the Chinese Industrial and Commercial Bank and China Investment Corporation are reportedly pursuing investment opportunities in the Indian financial services sector. Considering that the pandemic has undermined companies in the technology, infrastructure and other unregulated sectors, the government may consider updating FDI regulations to ensure that adequate controls are in place with respect to the acquisition of these companies (including by governments or sovereign funds).

News from Peoples Bank of China (PBOC) purchasing a stake of one of India's largest housing finance firms, the Housing Construction Financial Corporation (HDFC), has created havoc in both financial media and industry. The warning came out that Indian companies have become easy targets for Chinese buyers to purchase because of the COVID-19 pandemic following a rapid drop in the valuation of the Indian companies listed. That the shareholding was chosen as the price of HDFC collapsed 40 percent from its height aggravated those questions further.

The Saudi Arabic Monetary Authority (SAMA) took a 0.7 percent interest in HDFC on behalf of the Saudi Sovereign Wealth Fund. SAMA's name is not reflected in the names of major shareholders in HDFC's regulatory filing since the holding of the company is less than one percent. The crash is the best moment for customers to go shopping and purchase stores at a discount and what PBOC or SAMA did was the normal custom in business. So why did PBOC buying a stake in HDFC trigger such a controversy?

There are so many explanations for this. Firstly, it is not usual for a central bank to purchase an equity stake in a commercial company. The past of this deal made the transfer even more shocking and there was more uncertainty. The role of the Chinese government in spreading the COVID-19 pandemic has come under a cloud with concerns raised as to whether the global epidemic and the ensuing crisis may have been averted had China acted more responsibly. Second, the fact that China sought political supremacy and cultural hegemony was an open secret. China's gross forex surplus of over $3.2 trillion, equal to India's 2019 GDP, surpasses India's $476.475 billion forex reserves, giving it ample flexibility to purchase beaten-down companies and enterprises.

China has become one of India's fast-growing FDI sources, especially for Indian start-ups such as Alibaba. The fine line between the government and the private sector is not clear in China, which is one of the main concerns. Brookings Institute recently conducted research on the biggest problem for India is to determine Chinese Investments in India, as there is no single data by which FDI can be transferred.

Government of India, DIPP which the promotion department of Internal Trade and Industry, it is also the agency of government which is liable for policy controlling foreign investment in India, seems to have modified the FDI policy in a swift and widely welcomed manner in order to shield Indian companies from opportunistic takeovers While the move has been under debate within the Government for some time.

As per the FDI policy, a foreign body that invests in the country keeping aside the prohibited sectors or activities which fall under the category of the automatic route which does not require the permission of the state. Residents of Bangladesh/Pakistan or any organization can make investments only in government routes which would happen after taking permission of the government before making the investment. They are exempted from making an investment in the security, energy department, or prohibited sectors. After the FDI policy was amended, the owner or individual can make an investment in India or who resides at border sharing country with India can make an investment in government routes.

All this would require approval by the government in order to pass ownership of FDI in Indian company whether directly or indirectly, hence would result in beneficial ownership which would fall under such restriction. Such an amendment is brought to control greenfield and brownfield investments which are made countries who share mutual border with India, it gives power to the government to allow such investment on case to case basis. Although this amendment does not explicitly mentions restrictions upon Chinese investments but it targets that only because the 7 nations which shares common borders with India were already regulated and it would not make any significant changes for investments made by Nepal, Myanmar, Bhutan or Afghanistan.

The recent amendment is very wide in its scope & would refer to only one share being purchased or transferred. What is unclear is whether the amendment will succeed in regulating and slowing the step of Chinese investment to India. It provides no concept of beneficial possession. The effect may be that taking advantage of this lack of clarification can and will continue to route China's investments from countries. It also places investment under the route of government approval by a corporation or a person based in China.

Such a limitation can easily be circumvented if an organization that is headquartered in a Country other than China, which in the end owns a Chinese entity or individual invests in an Indian enterprise. Unless beneficial ownership is established to limit Chinese companies and citizens' ultimate ownership or power, the amendment can fail to achieve its desired outcome. It still remains uncertain if the amendment will extend to Hong Kong investments. Until now, for the purpose of FDI in India, Hong Kong & China are treated as different places.

RETROSPECTIVE EFFECT

This amendment is retrospective in nature which means any transaction which has occurred prior to the date of current date on which press release was made which involves an investment from nearby countries which includes China, will require government approval for any purchase, sale, exchange in the case when any ownership is being transferred. It will also result in keeping Chinese investments locked up before any government instruction is given.

EXEMPTIONS

This order by the government does not mention any restriction on FII or FPI road by Chinese companies. It can also be concluded that this can be a measure to prevent investments and continuous taking over by Chinese companies in India to the listed and unlisted companies and their influence of any kind.

India's government has checked India's FDI strategy to monitor Chinese investors' takeovers and acquisitions of companies in India in these difficult times of pandemic that could make India suffer more losses.

CONCLUSION

Coronavirus outbreak and spread (Covid-19) will have a detrimental impact on the flows of global foreign direct investment (FDI). With disease distribution scenarios ranging from short-term stability to continuity over the year, downward pressure on FDI will vary from 5-15 % (compared with previous moderate growth projections in the FDI pattern for 2020-2021).

• FDI would affect more in those countries which are already in breakdown phase due to this pandemic, there will be negative changes in demand and supply chain would also see economic effects resulting in disrupting the investment elsewhere also.

• Due to COVID-19, more than 2/3rd MNCs have already released their statements about the negative effects it has brought along. It includes top MNCs as well.

• Others are cutting capital investment in areas affected. In fact, reduced wages – 41 have issued earnings alerts so far – will translate into lower reinvested profits (a big component of FDI).

• According to Covid-19, the top 5000 MNEs, which account for a large share of global FDI, saw downward revisions to earnings projections for 2020 by 9 percent on average. The worst-hit are the car sector (-44%), the airlines (-42%), and the oil and raw materials sectors (-13%).

• MNE's earnings focused in emerging markets are more at risk than those of established MNEs: MNE 's benefit outlook for developing countries has been updated downwards by 16 percent.

 ISSN : 2582– 211X

BIBLIOGRAPHY-

https://www.india-briefing.com/news/will-indias-fdi-policy-change-impact-chinese-investments-post-covid-19-20256.html/

https://www.unido.org/stories/coronavirus-economic-impact

https://www.bloombergquint.com/coronavirus-outbreak/impact-of-covid-19-on-fdi-regimes