FOCUS ON GIG ECONOMY: NEED TO BALANCE ECONOMIC INTERESTS & GEOPOLITICS'

Remove Curbs on Chinese Funding up to 15%: Govt Panel

GoM on jobs suggests easing of prior approval rules in Press Note 3, scrapping 10% LTCG tax faced by PE, VC funds

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New Delhi:

An eight-member group of ministers (GoM) on employment generation has recommended that the government could consider removing restrictions on Chinese investment up to 15% for reviving the gig economy, while maintaining a balance with geopolitical objectives.

Further, for the same purpose, it has suggested that international investors with 50% less than “ultimate Chinese beneficial ownership” could also be granted exemption from prior approval restrictions.

The GoM, which was headed by social justice minister Thaawar Chand Gehlot, has essentially called for a “clarification and modification of Press Note 3” dealing with “opportunistic takeovers/acquisitions of Indian companies”. While Press Note 3 was issued citing the Covid-19 pandemic in April, the matter has since acquired security ramifications owing to India-China military stand-off in Ladakh.

The three key changes have been proposed in final report that was submitted by the group of ministers on October 22.

First, removal of restrictions on Chinese investment in Indian companies if it’s less than 15%.

Second, exclude international investors with ultimate Chinese beneficial ownership less than 50% from prior approval requirement under Press Note 3.

Third, exempt investment from Taiwan and Hong Kong if the investing entities certify that they are not majority owned or controlled by People’s Republic of China.

The GoM has taken the view that a middle path needs to be found between geopolitical objectives and economic interests.

“Liberalise the FDI rules, maintaining a balance between geopolitical aims of restricting Chinese takeover of Indian companies and the economic objectives of improving employment through the gig economy,” said the report, citing a study by TechCrunch, a technology startup publisher, that said Chinese investment in Indian startups is to the tune of $6 billion.
Besides, the GoM report has called for “removal of long-term capital gains tax of 10% for private equity (PE)/venture capital (VC) funds to attract more capital into gig economy companies”. The group’s assessment is that this could attract investment up to ₹36,000 crore. It has also backed the idea of more tax exemptions where technology transfer is done for the benefit of Indian companies.