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**EDITORIAL ANALYSIS**

# FDI and the Land-Border Rule — India's Calibrated Re-engagement with China-Linked Capital

 MINT

20 March 2026

**SUBJECTS COVERED****ECONOMY** **IR****GS PAPERS****GS2** **GS3****CURATED & WRITTEN BY****Bharat Choudhary**

UPSC Educator &amp; Content Creator •

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GS2

GS3

 Mint

MAINS RELEVANCE:

GS Paper 2

GS Paper 3



## INTERVIEW ANGLE

"India tightened FDI from land-border countries (including China) in 2020 after Galwan. Now it's relaxing the rule for minority non-controlling stakes. Is this pragmatic economics or a strategic risk? How should India balance the need for Chinese technology investment in EVs and electronics with national security concerns?"

## WHY IN NEWS

The Union Cabinet approved a **relaxation to India's FDI land-border rule** — permitting automatic-route foreign direct investment from entities where **land-border countries** (China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan) hold up to **10% non-controlling beneficial ownership**, reversing a blanket restriction that had unintentionally blocked investment from third-country funds with incidental Chinese LP stakes. The Mint editorial analyses whether this is pragmatic capital-account calibration or a strategic dilution of post-Galwan guardrails.

## BACKGROUND — THE PRESS NOTE 3 (2020) RESTRICTION

**Press Note 3 of 2020** (issued by DPIIT, Ministry of Commerce and Industry) was India's response to the April–June 2020 Galwan Valley clash and concerns about opportunistic Chinese takeovers of Indian companies during COVID-19:

### What it said:

An entity of a country that **shares a land border with India** (China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan) can invest in India only through the **government approval route** — automatic route FDI was suspended

This applied even to **indirect investments** where a land-border country entity is a beneficial owner in any upstream entity

## Rationale:

Galwan clashes (June 2020): Deadliest India-China border clash since 1967; 20 Indian soldiers killed

COVID-19 market correction had depressed Indian company valuations

Concern: Chinese state-linked entities could acquire strategic Indian companies at depressed prices

The “**predatory FDI**” concern coined by the MEA was the policy trigger

## Impact: The blanket restriction caught unintended victims:

Global private equity and venture capital funds with Chinese limited partners (LPs) — even where China holds 2–5% of the fund — became subject to government approval

Singapore, Mauritius, and Cayman-domiciled funds with Chinese LP stakes lost automatic route access

Slowed FDI inflows in **electronics, EVs, pharmaceuticals, and semiconductor assembly** — sectors where Chinese supply chain integration is economically unavoidable

## THE 2026 RELAXATION — WHAT CHANGED

### The Cabinet’s amendment:

FDI from entities where land-border country beneficial ownership is **≤10% and non-controlling** is now permitted under the **automatic route**

Above 10% beneficial ownership, or controlling stake (regardless of %) → still requires **government approval**

Applies prospectively; existing restrictions on direct investment from Chinese entities remain unchanged

### Practical effect:

A Singapore-based PE fund with a 5% Chinese LP stake can now invest in an Indian startup without government clearance

A Chinese company directly investing in India still needs approval

A Chinese entity with 15% stake in an overseas holding company → still approval route

**FEMA (Foreign Exchange Management Act):** The amendment operates within FEMA’s capital account transaction framework; DPIIT issues press notes on FDI policy, operationalised through RBI’s FEMA regulations.

## INDIA-CHINA ECONOMIC REALITY — WHY THE RELAXATION IS PRAGMATIC

The Mint editorial argues that the 2026 relaxation is a **rational economic correction**, not a strategic retreat:

### THE DECOUPLING PARADOX IN KEY SECTORS:

Sector	China's Role	India's Dependency
<b>Electronics (smartphones, laptops)</b>	~65% of global manufacturing	India's PLI beneficiaries (Foxconn, Dixon) rely on Chinese component supply chains
<b>EVs (Electric Vehicles)</b>	Global leader in batteries, BMS, motors	Tata, Mahindra EV battery packs use Chinese cells; CATL/BYD are critical suppliers
<b>Solar panels</b>	~80% of global polysilicon and module production	India's solar capacity addition depends on Chinese modules (though PLI targets domestication)
<b>Pharmaceuticals (APIs)</b>	India imports ~70% of Active Pharmaceutical Ingredients from China	Generic drug exports depend on Chinese API availability
<b>Specialty chemicals</b>	China dominates global fine chemical supply chains	Indian pharma and agro-chemical sector supply chains

**The verdict:** Complete decoupling from Chinese supply chains is economically impossible in the 5–10 year horizon. The question is **strategic management of dependency**, not elimination.

### THE THIRD-COUNTRY FUND PROBLEM:

Post-Press Note 3, legitimate global capital pools domiciled in Singapore, Cayman Islands, or Mauritius — with small Chinese LP percentages (common in global PE/VC) — were blocked from India. This:

- Diverted capital to Vietnam, Indonesia, and Mexico

- Created a **competitive disadvantage** for India in attracting global tech investment

- Penalised the **structure of capital**, not Chinese control or intent

The 10% non-controlling threshold addresses this — a Chinese LP holding 5% of a Singapore VC fund is not in a position to direct or control the fund's India investments.

## THE MINT EDITORIAL'S CORE ARGUMENT

The editorial makes a nuanced assessment — **pragmatic but cautious**:

### 1. THE THRESHOLD IS APPROPRIATE — FOR NOW

10% non-controlling is a globally used threshold for “significant influence” vs. “control” (IFRS 10/IAS 28 accounting standards). Below 10% beneficial ownership without board rights or veto → genuine minority stake without strategic leverage. The editorial supports this calibration.

### 2. ENFORCEMENT IS THE REAL RISK

The weakness is not the rule but the **enforcement mechanism**:

India’s beneficial ownership identification under FEMA is **self-declared** — companies declare their ownership structure at the time of FDI filing

Opaque structures (offshore SPVs, nominee shareholding, complex LP arrangements in Cayman Islands) can obscure true Chinese control behind structures that appear compliant

The Ministry of Corporate Affairs’ **significant beneficial owner (SBO) disclosure framework** (Companies Act 2013, Section 90) has weak enforcement for foreign entities

The editorial calls for: **mandatory third-party beneficial ownership verification** (by a SEBI-registered custodian or CA firm) before automatic route FDI from entities connected to land-border countries.

### 3. SECTOR-SPECIFIC RESTRICTIONS MUST REMAIN

The automatic route relaxation should be **categorically excluded** for:

Defence and aerospace

Telecom infrastructure (5G networks)

Critical information infrastructure (power grids, financial systems)

Media and broadcasting

The editorial affirms that these sectors’ FDI must remain on government approval route regardless of beneficial ownership percentage — national security cannot be reduced to an accounting threshold.

### 4. THIS IS TRANSACTIONAL, NOT GEOPOLITICAL RESET

The relaxation should be read as **economic pragmatism**, not a signal of strategic warming with China. India-China relations remain adversarial on the border (additional patrolling agreements notwithstanding), in multilateral forums, and in the technology competition. Capital policy and strategic policy operate on different timescales.

## FDI POLICY FRAMEWORK — KEY CONCEPTS

Concept	Definition
<b>Automatic Route</b>	FDI allowed without prior government/RBI approval (up to sector-specific caps)
<b>Government Approval Route</b>	FDI requires FIPB (now DPIIT/sectoral ministries) prior approval
<b>Beneficial Owner</b>	Person who ultimately owns/controls an entity (even through nominee structures)
<b>Non-Controlling</b>	Below 10% equity + no board representation + no veto rights
<b>Press Note</b>	DPIIT policy circular that operationalises FDI rules under FEMA
<b>SBO (Significant Beneficial Owner)</b>	Under Companies Act, Section 90: person with >10% beneficial interest in a company

## UPSC RELEVANCE

*Press Note 3, 2020 (DPIIT — land-border country FDI rule), FEMA (Foreign Exchange Management Act, 1999), DPIIT (Department for Promotion of Industry and Internal Trade, under MoCI), Galwan Valley clash (June 2020), Companies Act 2013 Section 90 (SBO disclosure), automatic vs. government approval route FDI, India's API import from China (~70%), CATL/BYD (Chinese EV battery makers).*

**Mains GS2:** India-China bilateral relations — economic dimension, border tensions vs. trade dependency, FDI policy evolution, FEMA capital account management. **GS3:** FDI policy — land-border rule, automatic vs. approval route, economic impact of China decoupling attempt, PLI in electronics/EV/solar, supply chain indigenisation.

## ★ FACTS CORNER — KNOWLEDGEPEDIA

### PRESS NOTE 3 (2020) — KEY FACTS:

Issued by: DPIIT (Department for Promotion of Industry and Internal Trade), MoCI

Trigger: Galwan Valley clash (June 15, 2020); COVID-19 market depression; predatory FDI concern

Rule: All FDI from land-border countries → government approval route (no automatic route)

Land-border countries: China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan (7 countries)

### 2026 RELAXATION:

10% non-controlling beneficial ownership → automatic route permitted

Above 10% OR controlling stake → still government approval route

Rationale: Unblock third-country funds with incidental Chinese LP stakes

### INDIA-CHINA ECONOMIC DATA:

India-China bilateral trade (2024-25): ~\$118 billion (China is India's largest trading partner)

India's trade deficit with China: ~\$85 billion (India imports much more than it exports)

API import from China: ~70% of India's Active Pharmaceutical Ingredient supply

EV battery dependence: Indian EV makers (Tata, Mahindra) rely on Chinese cell supply (CATL, BYD)

Solar dependence: ~80% of global polysilicon + modules from China

### FEMA FRAMEWORK:

Full form: Foreign Exchange Management Act, 1999 (replaced FERA 1973)

Regulator: RBI (for capital account transactions); DPIIT for FDI policy

Enforcement: Directorate of Enforcement (ED) for FEMA violations

### COMPANIES ACT 2013 — SBO:

Section 90: Significant Beneficial Owner — person with >10% beneficial interest

Must file Form BEN-1 (declaration) + BEN-2 (company filing with RoC)

Weak enforcement for foreign entities with offshore structures

### GALWAN VALLEY CLASH (JUNE 15-16, 2020):

Location: Galwan River valley, Ladakh (Line of Actual Control)

Casualties: 20 Indian soldiers killed; Chinese casualties not officially disclosed (US intelligence estimated 35+)

Aftermath: India banned 267 Chinese apps (TikTok, PUBG, WeChat, etc.); Press Note 3 on FDI; ban on Chinese power equipment in critical infrastructure

### OTHER RELEVANT FACTS:

FIPB (Foreign Investment Promotion Board): Abolished in 2017; approval functions transferred to sectoral ministries + DPIIT

IFRS 10/IAS 28: International accounting standards — <10% equity = no significant influence; 10-49% = associate/significant influence; 50%+ = control

India's FDI inflows (FY24-25): ~\$70 billion (decline from peak of \$85 billion in FY21-22)

PLI for electronics: ₹41,000 crore scheme targeting ₹10 lakh crore production over 5 years

Sources: Mint, DPIIT, RBI



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CURATED & WRITTEN BY

# Bharat Choudhary

UPSC Educator & Content Creator

 [linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

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