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India Eases FDI Norms for China-Linked Firms — Press Note 2 (2026 Series)

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WHY IN NEWS

India modified its **Foreign Direct Investment (FDI) policy** on **May 6, 2026** by issuing **Press Note 2 (2026 Series)**, partially relaxing restrictions imposed through **Press Note 3 (2020)**. The key change: overseas companies with **up to 10% Chinese or Hong Kong shareholding** — without having “control” over the company — may now invest in India through the **automatic FDI route** (i.e., without prior government approval). A **12-week processing timeline** for government-route applications was also mandated.

THE POLICY CHANGE — WHAT CHANGED

Before (Press Note 3, 2020)

- Any entity from a **land-border country** (including China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan) — or **beneficially owned** by such an entity — **required prior government approval** regardless of shareholding percentage.
- No distinction between “control” and “passive minority shareholding.”

After (Press Note 2, 2026 Series)

SCENARIO	ROUTE
Chinese/HK shareholding $\leq 10\%$ + no control	Automatic route (no approval needed)
Chinese/HK shareholding $> 10\%$ OR with control	Government approval route (as before)
Other land-border countries (Pakistan, Bangladesh, etc.)	Government approval route (unchanged)
Multilateral banks / AIIB	Exempt from land-border restrictions (new)

“Control” definition: Per **PMLA (Prevention of Money Laundering Act) 2002** — holding more than 10% beneficial ownership = controlling interest.

WHY INDIA EASED THE NORMS

REASON	EXPLANATION
Attract investment	India competes with Vietnam, Mexico, Indonesia for “China+1” manufacturing investments; over-restrictive rules deterred third-country investors with minor Chinese stakes
Manufacturing push	Electronics, EV batteries, solar panels, semiconductors need global investors — many of whom have minority Chinese shareholding
AIIB inclusion	Multilateral Development Bank logic: AIIB (China-led) has 57-country membership; excluding it from India undermined multilateral financing
PLI scheme investors	Several PLI beneficiaries had minor China-linked investors blocked due to PN3

CHINA-INDIA FDI CONTEXT

PARAMETER	VALUE
China’s FDI in India	USD 2.51 billion (cumulative to December 2025)
China’s share of India’s total FDI	0.32%
China’s rank among investor nations	23rd
Top investor countries in India	Mauritius, Singapore, USA, Netherlands, Japan
Press Note 3 (2020) trigger	China’s PBOC acquired ~1% stake in HDFC during COVID-19 (2020); India feared opportunistic acquisitions

LAND-BORDER FDI POLICY FRAMEWORK

India’s land-border FDI restriction applies to:

COUNTRY	STATUS
China	Government route (prior approval) – partial relaxation via PN2 2026
Pakistan	Government route (virtually no FDI approved)
Bangladesh	Government route
Nepal	Government route
Bhutan	Government route
Myanmar	Government route
Afghanistan	Government route
Multilateral banks (AIIB, NDB)	Exempt from land-border rules (new, 2026)

FDI FRAMEWORK — KEY CONCEPTS

CONCEPT	DETAIL
Automatic route	FDI allowed without prior RBI/government approval up to sectoral caps
Government route	Prior approval of FIPB (now replaced by DPIIT/respective ministries) required
DPIIT	Department for Promotion of Industry and Internal Trade — nodal body for FDI policy
FEMA	Foreign Exchange Management Act 1999 — governs FDI flows
NDI Rules	Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 — operative framework for FDI
PMLA	Prevention of Money Laundering Act 2002 — defines beneficial ownership (>10%)
Press Notes	Official FDI policy circulars issued by DPIIT

UPSC RELEVANCE

PAPER	ANGLE
GS2 — International Relations	India-China economic relations, FDI diplomacy, land-border policy
GS3 — Economy	FDI policy, automatic vs government route, FEMA, NDI Rules
GS2 — Governance	DPIIT, FIPB abolition, press note system

Mains Keywords: Press Note 2 (2026), Press Note 3 (2020), FDI automatic route, land-border countries, PMLA beneficial ownership, China FDI India, AIIB exemption, DPIIT, FEMA, NDI Rules, China+1 strategy

Prelims Facts Corner

ITEM	FACT
New policy	Press Note 2 (2026 Series) modifies Press Note 3 (2020)
Threshold	≤10% Chinese/HK shareholding without control → automatic route
Control definition	PMLA 2002 — >10% beneficial ownership
China's FDI in India	USD 2.51 billion; 0.32% share; 23rd ranked investor
AIIB	Exempt from land-border FDI restrictions (new)
Govt-route timeline	12 weeks (new mandatory processing limit)
PN3 (2020) trigger	China's PBOC stake in HDFC during COVID-19
Nodal body	DPIIT (Dept for Promotion of Industry and Internal Trade)
Legal framework	FEMA 1999 + NDI Rules 2019
Land-border countries	China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan

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