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EDITORIAL ANALYSIS

# Why India Eased FDI Rules for China-Linked Firms — Sectors That Benefit and Strategic Risks

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# Why India Eased FDI Rules for China-Linked Firms — Sectors That Benefit and Strategic Risks

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## EDITORIAL SUMMARY

The Indian Express analysis (May 6, 2026) examines **Press Note 2 (2026 Series)** — India’s partial relaxation of the blanket FDI restrictions imposed on China-linked entities in 2020 — arguing that the government has made a **pragmatic, sector-competitive choice**. The piece frames the change as India’s acknowledgement that the original **Press Note 3 (2020)** — introduced during COVID-19 to prevent opportunistic Chinese acquisitions — had become a barrier to attracting “**China+1**” investments from global manufacturers seeking to diversify supply chains away from China.

The editorial is measured in its assessment: the relaxation is **necessary but not sufficient**. It correctly identifies the **10% shareholding threshold** as a surgical intervention, and notes that the **AIIB exemption** signals a pragmatic shift in how India treats **multilateral** institutions with Chinese participation. But it cautions that without improvements in **labour flexibility, land acquisition ease, logistics infrastructure, and regulatory predictability**, FDI policy changes alone will not deliver the manufacturing investment India seeks.

## KEY ARGUMENTS

### The China+1 Opportunity — and Why India Was Missing It

The “China+1” strategy: global manufacturers (electronics, EVs, pharmaceuticals) are diversifying production away from China for geopolitical and supply-chain **resilience** reasons. Vietnam, India, Mexico, Indonesia are primary beneficiaries. However:

BARRIER	EFFECT
PN3 (2020) blanket restriction	European/Japanese/Korean companies with even 2-5% Chinese institutional investor stakes were being blocked
Fear of blocking legitimate investment	Companies with Chinese minority shareholders exited India FDI plans; invested in Vietnam instead
AIIB exclusion	Bhutan, Sri Lanka, Bangladesh infrastructure funding via AIIB couldn't flow through India easily
Investor uncertainty	Even legal teams couldn't give clear clearances — 100% government approval burden

## Sectors That Benefit from PN2 (2026)

SECTOR	WHY CHINA-LINKED INVESTORS MATTER
<b>EV batteries</b>	CATL, BYD (Chinese) are building their own European factories (Germany, Hungary) and partnering globally; their supply chain partnerships are critical for India's EV transition
<b>Solar panels</b>	Many Tier 1 solar technology firms have Chinese investors; India's solar manufacturing needs these partnerships
<b>Electronics/Semiconductors</b>	TSMC (Taiwan), Samsung (Korea), global firms have Chinese fund investors; PN3 was blocking
<b>Consumer electronics</b>	ODIN, Foxconn-type supply chain partners
<b>Pharma APIs</b>	Active Pharmaceutical Ingredients — Chinese raw material supply chains deeply embedded
<b>Critical minerals</b>	Processing technology — China dominates lithium/cobalt processing; joint ventures needed

## The Safeguards

The editorial assesses the policy's built-in safeguards:

- ❶ **10% threshold + no control** — blocks state-owned enterprises (which typically hold >10% or exert control)
- ❷ **PMLA beneficial ownership** definition — legal rigour on “control” prevents nominal structures
- ❸ **Sectoral caps remain** — defence, space, nuclear, media restrictions unchanged
- ❹ **Government route available** — sectors deemed sensitive can still require approval

## The Limits of FDI Policy Alone

The piece closes with a structural warning: Vietnam attracted more FDI than India in 2024–25 not because of FDI rules but because of **lower labour costs, simpler land acquisition, better logistics infrastructure, and predictable regulatory environment**. FDI policy easing is necessary but the **ease of doing business** improvements are the real determinants.

### UPSC RELEVANCE

PAPER	ANGLE
GS2 — International Relations	India-China economic relations; FDI as diplomatic signalling
GS3 — Economy	FDI policy, China+1 strategy, manufacturing competitiveness, AIIB
GS2 — Governance	DPIIT, press note system, investment climate reforms

**Mains Keywords:** Press Note 2 (2026), Press Note 3 (2020), China+1 strategy, FDI automatic route, AIIB exemption, PMLA beneficial ownership, EV batteries, solar FDI, DPIIT, ease of doing business, manufacturing competitiveness India vs Vietnam

### Prelims Facts Corner

ITEM	FACT
Press Note 2 (2026)	Modifies PN3 (2020); $\leq 10\%$ Chinese/HK shareholding + no control = automatic route
PN3 (2020) trigger	China's PBOC stake in HDFC during COVID (2020)
China+1 strategy	Global manufacturers diversifying from China; India, Vietnam, Mexico, Indonesia compete
Key beneficiary sectors	EV batteries, solar, electronics, pharmaceuticals, critical minerals
AIIB	Asian Infrastructure Investment Bank; China-led; 111+ members (57 founding members in 2016); now exempt from land-border FDI rules
DPIIT	Dept for Promotion of Industry and Internal Trade; nodal body for FDI
Vietnam vs India	Vietnam attracted more manufacturing FDI in 2024–25 due to structural ease-of-doing-business factors
PMLA 2002	Defines "beneficial ownership" — $> 10\%$ = controlling interest

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