

# FDI curbs relaxed for China, others under Press Note 3

## Automatic route allowed for stakes below 10%

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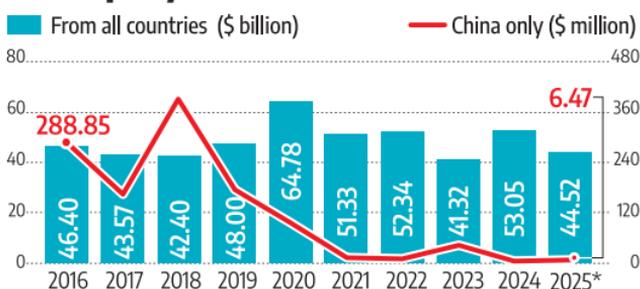
The Union Cabinet, chaired by Prime Minister Narendra Modi, on Tuesday eased the restrictions on investments from countries sharing land borders with India, including China, by allowing investments through the automatic route for non-controlling stakes below 10 per cent.

The amendments to Press Note 3 of 2020 also introduced a definitive 60-day timeline for processing investment proposals in sectors such as electronic components, capital goods, and solar cells.

The changes have been approved six years after the curbs were introduced, and are aimed at boosting foreign investment from China to help India integrate with global value chains and boost domestic manufacturing.

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### FDI equity inflows



\*As of Sep; Note: FDI equity inflows from nations, other than China, sharing land borders with India, are minuscule Source: DPIIT

### What Press Note 3 means

Press Note 3 (2020), issued by the Department for Promotion of Industry and Internal Trade, mandates that all foreign direct investment (FDI) norms from countries sharing a land border with India require prior government approval, regardless of sector or investment size.

#### Why was it introduced

Introduced in April 2020,

it aimed to prevent opportunistic takeovers of Indian companies during the pandemic. It gained additional attention after India-China ties deteriorated following the June 2020 clash in the Galwan Valley.

#### What will change now

The revised framework is expected to reduce those curbs and ease the approval process.

- Cabinet approves changes to IBC, companies laws
- Jal Jeevan Mission extended until 2028-end

# PN 3: FDI curbs relaxed for China

The government expects these changes in the foreign direct investment (FDI) policy to enable greater inbound investments from global funds into startups and deep-tech firms, while maintaining some regulatory oversight.

Till now, prior government approval was mandatory in the case of any investment proposals originating from a country that shares a land border with India — China, Bhutan, Nepal, Bangladesh, Pakistan, Afghanistan, and Myanmar — including cases where the investor was from one of these countries. While India never banned FDI from China, approvals under the inter-ministerial committee route were time-consuming, often taking up to a year or more for investment proposals from Chinese companies.

Known as 'Press Note 3', India's position was revised in April 2020 to curb "opportunistic takeovers/acquisitions" of domestic firms, considering their financial stress due to the Covid-19 pandemic. The move, however, was mainly targeted at restricting investments from China amid tensions at the Galwan border, but it didn't define beneficial ownership. Before April 17, 2020, investments from China could proceed without any prior government approval.

However, the application of Press Note 3 even in cases where investors from land border countries held only non-strategic and non-controlling stakes was adversely affecting investment flows, including those from global private equity and venture capital funds.

"It is expected that the new guidelines will provide clarity and ease of doing business in India, and facilitate investments that can contribute towards greater FDI inflows, access to new technologies, domestic value addition, expansion of domestic firms, and integration with global supply chains. This would

help in leveraging and enhancing India's competitiveness as a preferred investment and manufacturing destination," according to an official statement.

This means that an investor from China or any land border country holding a 10 per cent stake in a firm will be allowed to make an investment. Towards this, the definition of beneficial owner with a minimum threshold of at least 10 per cent has been introduced, an official said.

## Beneficial owner

According to the changes approved by the Cabinet, the definition and criteria for determination of beneficial ownership will be aligned with the Prevention of Money Laundering Rules, 2003.

As a result, investment proposals where beneficial ownership is up to 10 per cent will be allowed. This means that an investor from China or any land border country holding below a 10 per cent stake in a firm will be allowed to make an investment.

Atul Pandey, partner at Khaitan & Co, said the proposed amendments are expected to bring greater clarity to the beneficial ownership test under the Press Note 3 framework and facilitate more predictable structuring of joint ventures, minority investments by global funds, and capitalisation of existing companies, particularly in sectors such as manufacturing and technology where collaborative investments are common.

## Expedited clearance

Proposals for investments in specified sectors and activities of manufacturing in capital goods, electronic capital goods, electronic components, polysilicon, and ingot-wafer will be processed and decided within 60 days. A committee of secretaries under the Cabinet Secretary will have the authority to

revise the list of specified sectors. "In these cases, the majority shareholding and control of the investee entity will be with resident Indian citizen(s) and/or resident Indian entity(ies) owned and controlled by resident Indian citizen(s), at all times," the statement said.

"In addition, the introduction of a defined 60-day decision timeline for proposals in specified manufacturing sectors (including electronic components, capital goods, and solar manufacturing value chains) is expected to bring greater certainty to investors seeking technology partnerships and manufacturing collaborations in India. Overall, these changes are intended to support ease of doing business and improve the predictability of the investment approval process under the Press Note 3 regime," Pandey said.

The latest decision comes after a high-level committee headed by NITI Aayog member Rajiv Gauba last year

recommended that the government either withdraw restrictions on investments originating from China or consider calibrated easing of curbs. The panel, in an internal report in October, had suggested withdrawing Press Note 3 or relaxing the restrictions by allowing investment proposals where beneficial ownership is less than 10 per cent. It had also mooted allowing China and other land border countries to invest up to 49 per cent cumulatively in non-strategic sectors, subject to approval by a panel headed by the Cabinet Secretary. However, the largest shareholder in the Indian investee company would need to have dominant Indian control.

India may adopt a "calibrated" and "step-by-step" approach to easing norms on investments originating from China, Union Commerce and Industry Minister Piyush Goyal had said at the *Business Standard* Manthan 2026 event last month.

# PM: Cushion West Asia war impact

In Parliament, the PM also met Petroleum and Natural Gas Minister Hardeep Singh Puri and External Affairs Minister S Jaishankar.

Meanwhile, some states, such as Madhya Pradesh, have also set up committees to oversee regular supplies of cooking gas and fertilisers and coordinate with the Centre. With the ongoing conflict in West Asia disrupting liquefied natural gas (LNG) shipments through the Strait of Hormuz and key suppliers invoking the force majeure clause, the Centre issued a directive for diverting scarce natural gas to the economy's priority sectors, invoking The Essential Commodities Act, 1955.

According to The Natural Gas (Supply Regulation) Order, 2026, supply to four sectors will receive top priority allocation, maintained at 100 percent of their average

gas consumption over the past six months — domestic Piped Natural Gas (PNG), Compressed Natural Gas (CNG) for transport, Liquefied Petroleum gas (LPG) production including LPG shrinkage requirements, and pipeline compressor fuel and other essential pipeline operational requirements.

The second priority has been accorded to the supply of natural gas for fertiliser plants who will be ensured 70 percent of their past six months' average gas consumption, subject to operational availability.

The priority status is to ensure that farmers receive fertilizers on time, allowing agricultural activities to continue smoothly despite the global gas crisis, the government said, adding that the needs of farmers is one of its highest priorities, and that political instability in West