

India relaxes regulations on Chinese investment as pressures rise

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India has relaxed restrictions on Chinese investment as its economy comes under pressure from surging energy prices during the Middle East war.

Prime Minister Narendra Modi's cabinet gave the green light to investments in capital goods, electronics and solar cell sectors from neighbouring land-bordering nations.

While a government statement made no direct reference to China, the highly bureaucratic rules, dubbed Press Note 3, come in the wake of deadly border clashes between the militaries of the two giant Asian rivals six years ago. The rules made all investments by "land border-sharing countries" subject to government approval.

"The new guidelines will provide clarity and ease of doing business in India, and facilitate investments which can contribute towards greater FDI inflows, access to new technologies, domestic value addition, expansion of domestic firms and integration with [the] global supply chain," India's government said.

"This would help in leveraging and enhancing India's competitiveness as a preferred investment and manufacturing destination."

Modi's government had been discussing relaxing the rules amid industry pressure to ease Chinese flows. The conflict in the Middle East has severely disrupted oil and gas flows and the rupee hit its lowest level against the dollar.

The move comes as New Delhi is navigating its relationship with the US, its largest trading partner. US President Donald Trump has temporarily allowed India to buy some Russian oil, previously a trigger for a higher tariff rate on Indian exports. Trump claimed India's purchases were funding Moscow's war in Ukraine. He has since reduced the tariff to 18 per cent.

The trade and diplomatic rift with Washington pushed India to deepen ties with other partners and it struck long-pending trade agreements with others, including the EU this year.

The rules announced on Tuesday allow entities with less than 10 per cent Chinese ownership to invest without government approval. It also sets a cap of 60 days for authorities to decide on investments in key sectors including electronics, silicon wafers and solar cells. While China is India's second-largest trading partner, the gross FDI inflow from Beijing was just \$2.67mn in the fiscal year ending in March 2025, a drop in the overall total of \$50bn.

Though the easing was limited, "strengthening FDI inflows is particularly important in midst of the global uncertainties and geopolitical conflicts", said Rajani Sinha, chief economist at CareEdge Ratings.

Modi had set a target of increasing manufacturing in India, which still accounts for about 16 per cent of growth, far below the 25 per cent he targeted on taking office in 2014.

India reopened direct flights with China late last year, a year after Modi met Xi Jinping to reset the relationship.

While New Delhi's trade with Beijing has ballooned from \$86.4bn in the 2021 fiscal year to \$127.7bn in the financial year ending March 2025, this was largely driven by imports for India.