

Easing India's Curbs on Chinese Investment: Promise and Complexities

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Summary

The brief examines India's likely easing of restrictions on Chinese investment. It argues that the manner and pace of relaxation will be decisive to sustain the economic dimension of the recent thaw in China-India relations. Even so, Chinese investment is expected to increase only gradually at first.

A recent news report has stirred China-India relations. On 8 January 2026, *Reuters* reported that India plans to [relax its curbs on Chinese investment](#), a claim reinforced by reports that the Department for Promotion of Industry and Internal Trade has begun [inter-ministerial consultations](#) on easing the restrictions. Relaxing the curbs would remove a key obstacle to improved China-India relations and deepen the recent thaw. Uncertainty remains, however, as [similar claims have surfaced before](#), details are unclear and [reports on easing limits for Chinese firms](#) in government contracts are mixed. Even so, India is likely to proceed with some easing, and the manner of relaxation will largely determine the scale of Chinese investment and the trajectory of bilateral ties.

The curbs date back to 2020, when India issued [Press Note 3 \(PN3\)](#), which placed almost all direct and portfolio investment from entities and individuals in countries “sharing a land border” with India under mandatory government approval. In effect, PN3 shifted nearly all Chinese investment from the automatic route – available to most countries – to a separate government route requiring security and political clearance. Contrary to widespread perception, PN3 was not a response to the 2020 China-India border crisis. Introduced a month before the crisis erupted, it reflected Indian concerns about China opportunistically acquiring distressed Indian firms during the COVID-19 pandemic and about Chinese investment in sensitive sectors. Its immediate trigger was the People's Bank of China increasing its [shareholding in HDFC](#) when the latter's stock prices were depressed. The subsequent border crisis, however, led to a significant tightening of these restrictions. As a result, [Chinese foreign direct investment](#) through the automatic route fell from US\$190 million (S\$241 million) in 2019 to just US\$0.6 million (S\$0.76 million) in 2024, with only minimal inflows via the government route.

While India's investment restrictions have limited Chinese inflows and exerted some pressure on Beijing, the regime has notable weaknesses. The [curbs were slow](#) to be implemented, lack transparency, are difficult to enforce and often confuse Indian businesses. More importantly, they have begun to constrain India's economic ambitions, as firms need Chinese capital and technology to compete in global trade and manufacturing—prompting sustained industry pressure, echoed in the [2024 Economic Survey](#) presented by Finance Minister Nirmala Sitharaman, to ease the restrictions.

There are three important points to keep in mind about a potential loosening of India's curbs on Chinese investment. First, much will depend on how India relaxes its restrictions on Chinese investment. This will have an implication on the flow of Chinese investment into India and the security risks it poses. There has been heated debate in India on this question, with [competing proposals](#) presented to the government. NITI Aayog has proposed a cap on Chinese investors' share in Indian companies at [24 per cent](#), while another proposal recommends a [26 per cent](#) cap, with no Chinese management control. Equally, the [backlash](#) following the *Reuters* report suggests the political and security sensitivity of allowing Chinese investment in India. Additionally, critics have questioned whether the concerns behind imposing curbs on Chinese investment in 2020 have been addressed. Even after easing the curbs, Chinese investment in key sectors like electric vehicles (EVs), artificial intelligence and semiconductors will remain regulated. The eventual outcome is likely to be a tiered system based on the [sensitivity of the sector](#) involved. It will likely feature automatic or easy approval for most investments, tighter rules in specific sensitive sectors, like EVs and batteries and continued blockage in critical areas such as telecommunications, critical infrastructure and defense-related manufacturing.

Second, a relaxation of Indian investment curbs will boost the economic dimension of the recently-improved China-India relations, with economic ties being the more positive part of the two countries' deeply competitive relationship and the one most likely to drive bilateral progress. The restoration of these ties has lagged political normalisation and stabilisation of the disputed border. This is particularly true for investment, as [trade has grown](#) during the 2020-2024 freeze in relations. Both sides have a strong interest in boosting investment. For Beijing, India is an attractive and large emerging market, to which parts of China-based supply chains are migrating. For New Delhi, there has been a quiet recognition that India's economic rise needs Chinese investment, technology and know-how.

Third, initially Chinese investment in India will grow slowly. Chinese investors are likely to be cautious as the improvement in bilateral relations is recent and still uncertain. The post-2020 period demonstrated to Chinese investors how political tensions can obstruct investment and even impact Chinese companies with strong Indian partnerships, such as [BYD](#). Moreover, a potential trade deal with Washington could affect both Chinese investment in India and the exports to the United States (US) of India-based Chinese companies. After years of heightened tensions with the US, many Chinese firms have already diversified their supply and production chains by relocating to other parts of Asia. Finally, New Delhi is likely to ease its curbs only partially and gradually, ensuring that any increase in Chinese investment remains slow and limited.

In conclusion, India is likely to ease its restrictions on Chinese investment cautiously – curbs that have become problematic and have arguably outlived their usefulness. However, the manner in which New Delhi relaxes these controls will tighten the link between the pace and scale of Chinese investment in India and its broader impact on bilateral relations.

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