

CHANGING TIES

China puzzle: Great Wall to gateway

Survey bats for more FDI from China to tap export market

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It is termed the most talked-about “frenemyship” in Asia or a not-so-successful “*Hindi Chini Bhai Bhai*” bonhomie. In the age of the China Plus One, the Economic Survey aims to redraw the relationship with the neighbouring superpower to India’s advantage.

While the neighbour is mentioned 132 times in the Survey, it is proposing a two-dimensional strategy to benefit from China Plus One, either by integrating into China’s supply chain or by promoting foreign direct investment (FDI) from China, calling FDI “advantageous”. The Survey cited examples of Apple and its supplier Foxconn shifting to India to derisk themselves, due to disruptions caused by Covid-19, growing tensions between US and China, and rising costs of doing business in China. “The domestic consumer market is what makes it attractive for firms to set up their operations in



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India,” it said.

Apple assembled \$14 billion worth of iPhones in India during 2023-24, constituting 14 per cent of its global iPhone production, while Foxconn has started production of Apple mobile phones in Karnataka and Tamil Nadu.

“India faces two choices to benefit from the China Plus One strategy: it can integrate into China’s supply chain or promote FDI from

China. Among these choices, focusing on FDI from China seems more promising for boosting India’s exports to the US, similar to how East Asian economies did in the past. Moreover, choosing FDI to benefit from the China Plus One approach appears more advantageous than relying on trade,” it said.

China was India’s largest trading partner in FY24 and has been India’s largest import partner for

the past 18 years. The trade deficit with the neighbouring country was also the highest in FY24.

As the US and Europe shift their immediate sourcing away from China, it is more effective to have Chinese firms invest in India and then export the products to these markets rather than importing from China, adding minimal value, and then re-exporting them, it said.

“While 100 per cent FDI is per-

mitted under the automatic route in most manufacturing sectors, further reforms are necessary to attract more foreign investment in the manufacturing sector. These include streamlining complex labour laws to balance investor-friendly policies with worker protections, strengthening the intellectual property rights regime to safeguard research and development investments, and enhancing environmental regulations to ensure sustainable industrialisation,” said Anindya Ghosh, partner at IndusLaw, adding that India’s active participation in trade deals will play a vital role in its China Plus One strategy.

The Survey suggested that there is a need to come up with innovative ways to promote outbound shipments by focusing on FDI from China. The Survey points out that India must strike a balance between importing goods and FDI from China. “Data shows that foreign investment from China hasn’t been robust, although India’s dependence on Chinese goods has been persistent and has been rising for close to two decades,” it said.