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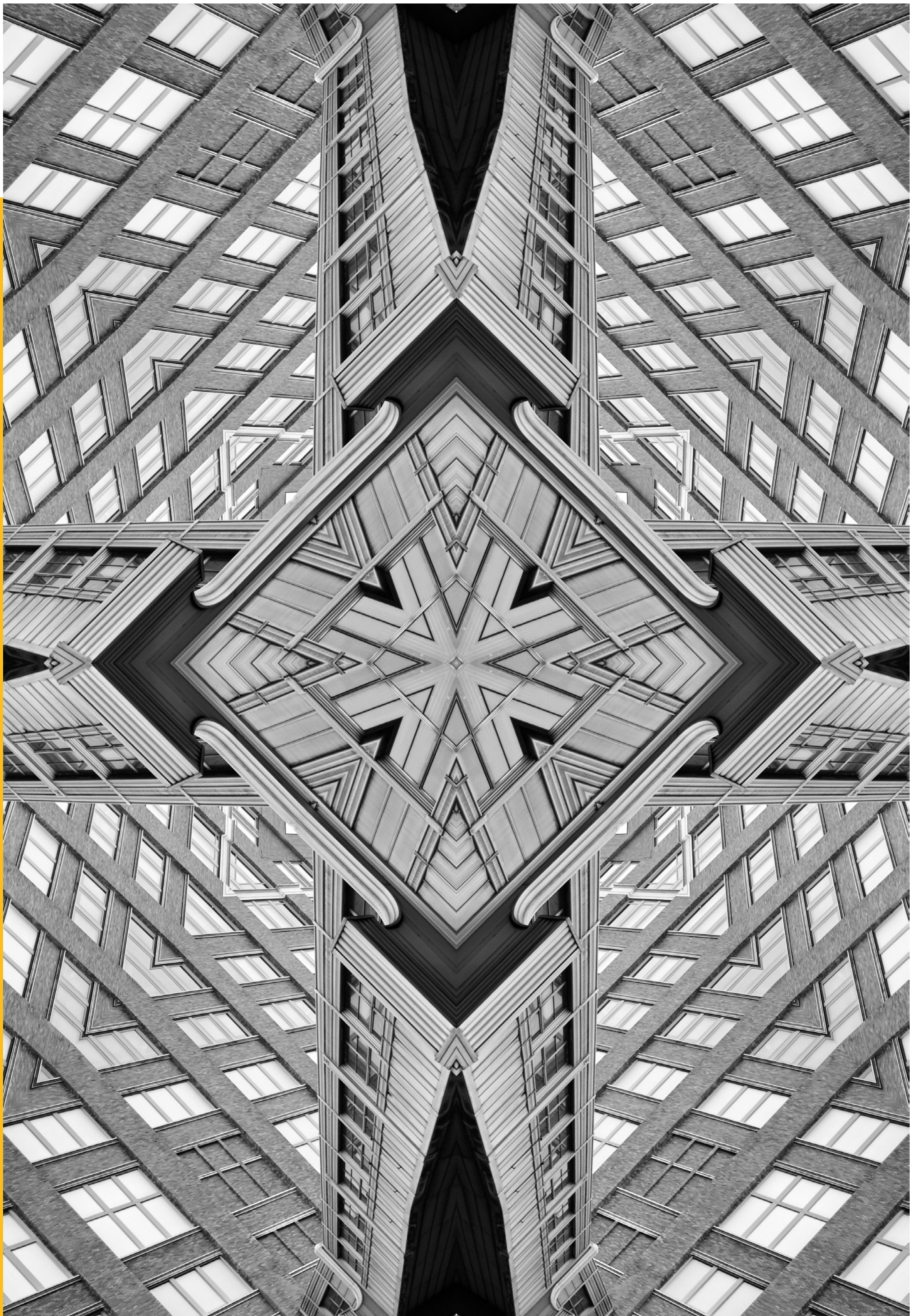

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To Stay or To Go: Decoding Chinese Enterprises’ ‘India Dilemma’

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Abstract

In recent years, India has become a hot investment destination for Chinese companies. While Chinese investments in India have come under greater scrutiny following the 2020 Galwan incident, this has done little to reverse Chinese enterprises’ strong appetite for the Indian market. At the same time, Beijing is increasingly concerned that in their rush to capitalise on the Indian market, Chinese companies are embracing the ‘Make in India’ policy and inadvertently supporting India’s ambition to replace China as the world’s leading manufacturing hub.

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Introduction

In early 2024, India's Enforcement Directorate (ED) conducted raids across 19 locations in Delhi-NCR, Chandigarh, Haryana, Punjab, and Gujarat in a money laundering probe against two Chinese-backed fintech firms.[1] This was the latest in a series of punitive actions against Chinese companies in India in recent years[2] over alleged money laundering, fraud, tax evasion, running shell companies, and more. A few months prior, in December 2023, senior executives of Vivo, a leading Chinese mobile phone company, were arrested for violating India's Prevention of Money Laundering Act. The development attracted the attention of China's foreign ministry and its spokesperson Mao Ning had at that time urged the Indian government not to discriminate against Chinese enterprises.[3]

As such, it can be argued that even as the military stalemate continues at the Line of Actual Control (LAC) between India and China following the 2020 Galwan incident, the issue of the functioning of Chinese enterprises in India is fast emerging as another sticking point in the bilateral relationship. This paper tracks China's domestic discourse on the issue and analyses how this might impact Chinese policies towards India.

Overview of Chinese Companies in India

Chinese companies have been active in India for at least the past two decades. However, the launch of China's Belt and Road Initiative (BRI) in 2013 marked a significant shift, with investing in India becoming "a new consensus" among Chinese enterprises.[4] The exact number of Chinese enterprises operating in India in any given year is difficult to ascertain as neither government maintains such a record.[5] Foreign direct investment (FDI) from China to India is also often routed through third countries, whose links to Chinese entities may be difficult to determine.[6]

In 2016, a first-of-its-kind survey by the Industrial and Commercial Bank of China pegged the number of Chinese-funded companies registered in India at 431.[7] Another survey in 2019, by Chinese consulting firm Zhufan Research Institute, without stating the exact numbers, highlighted, that the number of Chinese companies entering India between 2010 and 2016 was three times that before 2010, while the number between 2016 and 2019 was twice that before 2016.[8]

The Zhufan Institute survey further highlighted three development stages of Chinese companies in India. Before 2010 these were mainly in the fields of infrastructure construction, power, telecommunications, roads and bridges, rail transit, and energy. From 2010 to 2016, Chinese companies entered areas such as consumer electronics, high-end services, pharma, factory machinery, and building materials. After 2016, companies in the manufacturing and digital technology fields began to invest in India on a large scale.[9]

By 2019, Chinese companies began to cluster in specific areas (see Table1).[10]

Overview of Chinese Companies in India

Table 1: Chinese Companies in Industrial clusters in India

Industrial Clusters	Type of Industries	Brands
Ahmedabad-Vadodara	light engineering, electrical equipment	SAIC, Highly Electrical Appliances India Ltd, TBEA, Bao Steel
Mumbai-Pune	heavy equipment, plastic components, automobiles, consumer durables, real estate, financial services	Alibaba, Sany, Lesso, Haier, Zoomlion, Midea
Bengaluru	IT, real estate	Xiaomi, ZTE, Chinasoft International, Xindia Steels, CNTC
Delhi-NCR	Electronics, Electrical Machinery, Auto Components, Real Estate	OPPO, Vivo, Vsun, Xiaomi, Midea, CRRC, Coslight Batteries, Sunwoda Electronic
Andhra Pradesh-Chennai	Light Engineering, Electronics, Solar Modules	BYD, ZTT, Yama, Fosun Pharma, Pals Plush, Xiaomi, Gionee, XCMG, Lepro Solar, China Electronic Technology Group Corporation (CETC)

Source: Sohu[11]

The Chinese accounts maintain that the most prominent Chinese investments in India are in the mobile phone, automobile, and power sectors.[12]

Mobile Phone Companies

Chinese mobile phones began entering the Indian market in 2007.[13] However, it was only in 2014 that well-known smartphone brands such as

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Xiaomi, Vivo, OPPO, Huawei, and OnePlus entered and rapidly captured market share.[14]

As of the first quarter of 2019, Chinese smartphones had a substantial 66 percent market share in India, with a 20-percent year-on-year increase; Xiaomi, which topped the list, had a market share of 29 percent (Samsung, from South Korea, ranked second, wth 23 percent).[15] Other Chinese brands with strong growth included Vivo, Realme, and OPPO, among which Vivo's sales growth reached a staggering 119 percent. At the same time, all Indian brands taken together had barely 22 percent of the market.[16] By the second quarter of 2020, Chinese brands accounted for about 80 percent market share in India.[17]

The popularity of smartphones in India also opened up three major business opportunities for Chinese internet companies: mobile e-commerce, games, and advertising.[18] As such, India became an outstanding success story for Chinese mobile phone brands and internet companies.[19]

Car Companies

Chinese car companies have also continued to invest and set up factories in India to capitalise on the rapid growth of the Indian auto parts and components industry. SAIC was the first Chinese firm to establish a factory in India through an acquisition; it invested US$310 million[20] to acquire General Motors' Halol factory in Gujarat, and has since been mainly making electric vehicles (EVs) under the MG brand name.[21]

Great Wall Motors (GWM) announced its acquisition of General Motors' factory in Talegaon, Maharashtra, in January 2020,[22] with the intent of making SUVs, EVs, and lithium-ion batteries for EVs. It had previously also started a research and development (R&D) centre in Bangalore (in 2016).[23]

In 2019, Beiqi Foton announced plans to enter India, signing a joint venture agreement with PMI Electro Mobility Solutions Pvt Ltd, a Haryana-based bus manufacturing company. It also planned to set up a US$12 million plant in Pune to produce electric buses.[24] Similarly, BYD, Changan Automobile,[25] Chery[26] and other Chinese manufacturers, have all been keen to enter the Indian market.[27]

Power Companies

India, with its expanding power grid and 100 percent electrification target, offered a lucrative market for China's power manufacturers. Chinese companies started entering the Indian market as early as 2004, and soon became the largest suppliers of power generation equipment to India. Between 2018 and 2019, the total import volume of India's power sector was US$8.4 billion (INR 710 billion), of which US$2.5 billion (INR 210 billion)—or about 30 percent—was spent on imports from China.[28]

Chinese thermal power equipment companies were the major suppliers during India's 11th and 12th Five-Year Plan years (2007-2017). Of the 55 gigawatts (GW) of installed capacity India added during the 11th Plan years, 34 percent of the total equipment came from China.[29] In the first three years of the 12th Plan, more than half the equipment required was supplied by Chinese manufacturers. China's three major power generation equipment manufacturers, China Dongfang Electric Group, Shanghai Electric Group and Harbin Electric Group, became bulk exporters to the Indian market.[30] India accounted for over 50 percent of the overseas market for several Chinese companies, such as New Northeast Electric Group High Voltage Switch Co. and Jiangsu Tongguang Electronic Cable Co.[31]

India's 12th Five-Year Plan (2012-2017) emphasised new energy, which opened up fresh opportunities for China's photovoltaic (solar) industry. As per Chinese estimates, between April 2016 and January 2017, India imported solar equipment worth US$2.17 billion, of which Chinese imports comprised US$1.9 billion, or 87 percent.[32] In 2017-18, India became the biggest market for China's solar module exports; in subsequent years too, it has been one of China's major solar export destinations. Many Chinese companies in this segment—such as JA Solar, GCL Integrated, Risen Energy, Longi, and Chint,—flocked to India, setting up offices and warehouses to cater to the growing market.[33]

Decoding India's Allure

In 2015, in response to a media question on why India became a new "gold rush" for Chinese investors in the past few years, Li Jian, former secretary-general of the China Enterprises Chamber of Commerce in India, explained that there were three main reasons for the influx of Chinese companies into India.[34] The first is China's overcapacity of manufacturing and domestic market saturation, with competition being so fierce that many companies find it difficult to survive if they do not enter the international market.

The second is the attractiveness of the Indian market.[35] The sheer size of the Indian market makes it almost impossible for Chinese enterprises to find an equivalent substitute. India also has a complete financial system, an active securities market, and provides incoming investments an exit mechanism, which gives it a clear advantage over other countries, including those along China's BRI.

The third factor is China's level of industrial development, which is closer to India's level than that of the West. As such, Chinese products are more suited to the needs of the Indian market. Consequently, Chinese enterprises have better prospects of selling in the Indian market than in the West.[36]

Notably, apart from those seeking early access to the Indian market, Chinese firms from industries in which its domestic supervision and regulations had become stricter (such as cash loans, gambling games, and live streaming) also chose to flock to India in the past years.[37] More recently, as part of a new trend, many Chinese companies are choosing to invest in India primarily because their upstream and downstream industries had been shifting to Indian locations.

India's Crackdown

In early 2020, as the pandemic raged, the People's Bank of China bought 1.01 percent stake in HDFC, India's largest private bank.[a,38] To prevent more such "bargain hunting",[39] India revised its foreign direct investment (FDI) norms in April 2020, following which all investments by countries sharing a land border with India now need governmental approval, including in sectors where 'automatic' clearances were previously permitted. The restriction also extended to investors from other countries if they had "direct or indirect beneficial owners resident in a country that shares a land border with India" and covered any changes in the ownership of the existing FDI, any transfer of ownership, directly or indirectly.[40] To be sure, many other governments in Europe, North America, and elsewhere also took similar measures to protect local businesses from the impact of the pandemic.[41]

Notably, for India, the Galwan Valley clash in June 2020 proved the real tipping point, pushing the government to further restrict Chinese enterprises operating in the country. Since that month, India has banned over 300 Chinese apps,[42] including social media, gaming, and e-commerce software, on national security grounds.[43]

In June 2020, the Indian Railways' Dedicated Freight Corridor Corporation of India Ltd terminated its contract with China's Beijing National Railway Research and the Design Institute of Signals and Communication for signalling and telecommunications-related work on the Eastern Dedicated Freight Corridor.[44] In July 2020, India's Ministry of Power issued new regulations, making prior permission mandatory to import electricity equipment used in the supply network from 'prior reference' countries (namely, China and Pakistan),[45] which Power Minister Raj Kumar Singh admitted was meant to discourage imports from China.[46] In December 2020, Chinese company CRRC was also disqualified from bidding for a US$21.6 billion contract to manufacture 44 Vande Bharat trainsets.[47]

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a After raising its stake in HDFC in April 2020, People's Bank of China trimmed it to below 1 percent in the June quarter (See: "Has People's Bank of China sold entire stake in HDFC? Here's what we know," *Business Today*, July 10, 2020, https://www.businesstoday.in/industry/banks/story/has-people-bank-of-china-sold-entire-stake-in-hdfc-bank-heres-what-we-know-263671-2020-07-10)

In July 2020, Union Minister for Road Transport and Highways Nitin Gadkari also declared that India would not allow Chinese firms participate in highway projects, including even through joint ventures with Indian companies, nor would Chinese investors be entertained in sectors such as micro, small and medium enterprises.[48] The finance ministry also amended its General Financial Rules 2017, barring government agencies from procuring goods and services from China and Pakistan on the grounds of national security.[49]

In 2021, the Department of Telecommunications amended rules relating to telecom licenses to mandate the use of equipment only from "trusted sources" from 15 June 2021, tacitly forbidding the use of Chinese-origin telecommunications equipment in India's government-owned network.[50] Huawei and ZTE were left out of India's 5G trials.[51] In June 2021, the Indian Olympic Association (IOA) dropped Chinese sportswear maker Li Ning as its official kit partner for the Tokyo Olympics, citing "public sentiment".[52]

Additionally, since 2020, India's income tax department has also conducted tax investigations on or compliance reviews of almost all mainstream Chinese mobile phone brands, looking for evidence of wrongdoing, such as money laundering, tax evasion, and inadequate royalty payments. In 2023, for the first time, Indian authorities began arresting high-ranking executives of Chinese companies, including senior management executives, some of whom were Chinese nationals.[53] Indian government officials have reportedly also held meetings with Chinese mobile phone manufacturers, asking them to induct Indian equity partners in their local operations, appoint more Indian executives in top positions in their companies, provide more contracts to Indian manufacturers to support local manufacturing, and hire local distributors.[54]

Most significantly, during the pandemic, India introduced several policies to strengthen its local manufacturing industry. The phased manufacturing plan, launched in 2015 to promote domestic manufacturing, was replaced by the production-linked incentive (PLI) scheme,[b] which allocated

b The PLI scheme provides incentives, such as a subsidy, for increased sales of domestically manufactured products in key industries.

India's Crackdown

US$26 billion (INR 19.7 trillion) to support local production in 14 key industries, including semiconductors, photovoltaics, electronic equipment, pharmaceuticals, medical equipment and automobiles.[55] In many of these sectors, India has been highly dependent on Chinese manufacturing.[56] In end-2021, India approved another incentive plan, providing US$10 billion to attract large global semiconductor manufacturers to set up units in the country and thereby build India into a global centre for electronic system design and manufacturing,[57] eventually seeking to "compete with China and Vietnam in the global mobile phone production market".[58] It set itself a target of US$300 billion in electronics production, including US$100 billion in exports, by 2025-26.[59]

> "Over the past few years, India has introduced several policies to strengthen its local manufacturing industry."

Impact of India's Policies on Chinese Enterprises

Chinese observers believe that India's "targeted sanctions" have hit Chinese businesses hard, and much of the Indian market (the biggest and most lucrative in the developing world) has started eluding Chinese investors. Data released by China's Ministry of Commerce shows that, between January and December 2021, Chinese non-financial direct investment in India was US$63.18 million, a year-on-year decrease of 68.3 percent, while the value of new project contracts won by Chinese enterprises in India declined to US$1.67 billion, a year-on-year decrease of 26.9 percent.[60,61]

In the mobile phone space, Chinese media reports claim that companies like Xiaomi, Vivo, and OPPO have cumulatively lost about US$960 million to the Indian financial regulators.[62] Other reports claim that India's ban on Chinese apps has resulted in about US$10 billion in losses for Chinese app manufacturers and internet companies.[63] The market share of Chinese mobile phone companies in India has also fallen from its peak of 80 percent in Q2 2020[64] to approximately 50 percent in 2023,[65] with Samsung and Apple mainly benefitting as a result.

Facing a blanket ban in the Indian market, many Chinese internet companies have chosen to leave India, starting new units in West Asia, Latin America, and Africa.[66] Among those that have stayed back, some have entered what can be called 'grey industries', those that are either not completely legal, soon to be illegal, or the areas where the Indian legal system has not yet caught up with the development of Chinese Internet,[67] such as leasing of cash loan licences or third-party payment companies, which, they feel, can be remotely controlled from China. But in doing so, they have often fallen victim to dubious shell companies, thereby putting themselves and other Chinese businesses in India on a collision course with the government.[68]

Chinese car companies are also in such trouble that they are either exiting India or selling away majority stakes to local investors. Both BYD[69] and GWM[70] abandoned their investment plans and exited the Indian market after their proposals were rejected by the Indian government. MG Motor India, owned by SAIC Motor, has been seeking to "Indianise" operations by selling a majority stake to Sajjan Jindal's JSW Group.[71]

Impact of India's Policies on Chinese Enterprises

In the power space, a 2021 Chinese survey highlighted that India's policy changes had impacted Chinese power companies in different ways. It noted that China's traditional power-generation equipment-makers were the least affected as they had no new projects in India. The sales of Chinese solar manufacturing companies to India remain considerable, although their market share has declined significantly in the past two years. However, companies making power transmission and distribution equipment, such as New Northeast Electric Group High Voltage Switch Co, have faced order cancellations worth over US$13 million. The survey predicted that India's policy changes could further reduce the share of Chinese power equipment in the Indian market, and impact China's total volume of exports to India.[c]

As per Chinese estimates, at the end of 2019, there were over 1000 Chinese-funded firms in India, but this number declined to about 700 by October 2021.[72] By February 2024, this number has reportedly fallen further to 300.[d,73] There is a growing consensus in China that this is "the largest and most far-reaching systemic crisis Chinese-funded enterprises have faced since they entered India".[74]

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c This apprehension has been expressed by others too. For example, when India decided to reimpose restrictions on procurement of solar modules from 1 April 2024 by mandating that such modules should be sourced only from an approved list of models and manufacturers, the Chinese media expressed fears that their country's export market would shrink significantly and discussed the "inevitability" of industrial transfer. However, the same media noted that even in 2021 and 2022, post-Galwan, 92 percent of such modules and panels that India imported (worth around U$ 3 billion) came from China. (See: "印度市场不再使用中国光伏企业的组件？企业和业内这样看" (Will the Indian market no longer use modules from Chinese photovoltaic companies? This is how companies and the industry see it), *China Business News,* 2 April 2024, https://baijiahao.baidu.com/s?id=1795218069524163631&wfr=spider&for=pc)

d In December 2022, India's corporate affairs ministry said that there are 174 Chinese companies registered in the country as foreign companies with India as their place of business. There were also 3,560 companies in India with Chinese directors on their boards. However, the number of companies with Chinese investors/ shareholders is unavailable. In December 2023, the ministry said the number of Chinese companies with India as the place of business had reduced to 53. (See: "Centre says 3,560 companies in India have Chinese directors", *The Economic Times*, December 12, 2022, https://economictimes.indiatimes.com/news/company/corporate-trends/centre-says-3560-companies-in-india-have-chinese-directors/articleshow/96174803.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst; "Corp affairs ministry says 53 Chinese foreign companies established place of biz in India," *The Economic Times*, December 12, 2023, https://economictimes.indiatimes.com/news/india/corp-affairs-ministry-says-53-chinese-foreign-companies-established-place-of-biz-in-india/articleshow/105912857.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

Understanding China's Non-Response

Strategists in China have frequently condemned India for what they have called its "unscrupulous suppression" of,[75] or "reckless assault of Chinese firms".[76] China's state media has been running a shrill campaign calling India "the graveyard for foreign investment," and accusing it of "taking over or nationalizing Chinese companies".[77] However, the Chinese government has not responded, barring the occasional cautionary statement,[78] and, so far, there has been no massive retaliation against India.

This is primarily because, China is aware of its obvious advantages over India in economy and trade, given its large trade surplus and the scale of its net investment in India. Despite the recent curbs India has imposed, the Indian market remains critical for Chinese companies to register growth and go global.[e] China knows that it benefits more than India from the bilateral economic and trade cooperation.[79] As such, launching sanctions against India makes little economic sense.

Instead, China desperately wants to separate the border dispute with India from bilateral economic and trade relations, and restore the pre-2020 level of economic exchanges. As Wang Yi, Director of the Chinese Communist Party Central Committee's Foreign Affairs Commission, has repeatedly stressed in his interactions with his Indian counterpart, China does not want the boundary dispute to encompass the entirety of China-India relations. He has maintained that the border issue "should be put at a proper place in the overall bilateral relations" and suggested India "ease all restrictions on Chinese investment".[80] Many other top Chinese officials, including former Ambassador to India Sun Weidong,[81] China's current Charge d'Affaires in India Ma Jia,[82] and Chinese Consul General in Mumbai Kong Xianhua,[83] have also made statements trying to placate India into delinking bilateral economic relations from the border dispute.

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e Chinese research papers highlight that India is the main market for nearly 60 percent of Chinese companies with overseas businesses. Several Chinese infrastructure companies have achieved global breakthroughs by relying on the Indian market. For many Chinese Internet companies, India is the first market to focus on, as a critical springboard for expansion into first-tier English-speaking markets such as the US, the UK, and Australia. ("第一份驻印中企生存环境调研结果出炉，围观中国互联网在印度的真实发展情况"(A survey on Chinese business in India, April 2019), April 23, 2019, https://baijiahao.baidu.com/s?id=1631546258794879601&wfr=spider&for=pc ; "竺帆咨询CEO黎剑：被误读的印度" (Li Jian, CEO of Zhufan Consulting: Misunderstood India), July 31,2015, https://guba.eastmoney.com/news,cjpl,191675108.html)

Chinese Debates on India's Actions

Nevertheless, India's crackdown on Chinese companies has spurred intense debate within China. Some Chinese strategists[84] (such as Hu Shisheng, director of the South Asia Institute at the China Institute of Contemporary International Relations, and Lou Chunhao,[85] executive director of the South Asia Institute at the China Institute of Contemporary International Relations) have maintained that India's *Atmanirbhar* (self-reliance) policy, under which steps are being taken to decouple from China economically, is unrealisable and bound to fail.[86] China, they argue, need not worry for two reasons: first, India's manufacturing industry simply lacks competitiveness, while Chinese companies, with their relatively mature technology and rich practical experience, have an obvious competitive advantage in contracting projects in India.[87] Second, in fields such as heavy machinery, electromechanical products, telecommunications equipment, and household appliances, it is almost impossible for India to find alternative suppliers.[88] Therefore, it is argued that despite policy obstacles, producers and consumers in India will eventually turn to Chinese products.[89] Notably, many Chinese observers have expressed similar views about the US's decoupling/de-risking policies vis-à-vis China and argued that the US economy, just like the Indian economy, cannot survive without "Made in China".[90]

However, the Chinese strategic community's confidence in 'Made in China' is often shaken by their deep anxiety over a perceived overlap of US and Indian interests in weakening China's position in the global supply chain. They feel China should neither underestimate the US determination to marginalise China, nor discount India's ambition to replace China as the next global manufacturing centre.[91]

Certain economic indicators are further adding to the Chinese insecurity. It is noted with concern that between fiscal years 2020-21 and 2022-23, although the China-India trade volume remained high, the proportion of the bilateral trade volume in India's total foreign trade has dropped from 8.61 percent to 6.85 percent. India's imports from China accounted for 13.79 percent of its total imports of goods, falling from 16.53 percent.[92]At the global level, among the goods imported by Walmart—the world's largest retail store—for the US market, the proportion coming from India increased from 2 percent in 2018 to 25 percent in 2023, while that from China dropped from 80 percent to 60 percent in the same period. Again, US Department of Commerce data from 2020 to 2022 shows that US imports from India, as a proportion of total US imports, increased from 1.92 percent to 3 percent, while the corresponding proportion of imports from China in the same period decreased from 17.9 percent to 14.2 percent.[93]Although these are preliminary trends, and China-US trade and India-US trade are somewhat incomparable, such figures have alarmed the Chinese side and there is much hue and cry in China's domestic circles over 'Make in India'.

Overall, Chinese observers believe that in the past few years, India's 'Make in India' strategy has indeed led to greater localisation in key areas, such as new energy vehicles, batteries, chemicals and pharmaceuticals[94]. In electronic products, Indian-made mobile phones are a singular success of the ruling Narendra Modi government,[95] as for years earlier, India hardly had any mobile manufacturing, but is today the second largest mobile maker in the world after China.

This rapid development of India's mobile phone industry, in the Chinese assessment, is being driven by foreign mobile phone companies in India, including global multinationals like Apple and Chinese mobile phone companies that have pushed a large number of supplier companies to move to India from China to ensure local production capacity and cost advantages. News reports in the Chinese media highlight how, since 2013, Noida in Uttar Pradesh has become the epicentre of such manufacturing, attracting mobile phone brands such as Xiaomi, Huawei, OPPO and Transsion; original device manufacturer foundries including Foxconn,[f] Wentai, and Haipai; battery makers like Sunwoda; and mobile phone accessories companies like Yingtong, Xiaolin Electronics, and Lianchuang, most of which are headquartered in China.[96] These companies, it is argued, have together formed a mobile phone industry chain and supply chain network, which propelled India to its current position as the second-largest mobile phone producer.

f Foxconn is based in Taiwan.

Chinese Social Media Outrage

There is considerable online outrage in China about Chinese enterprises that have set up units in India and are seen as facilitating India's Atmanirbhar efforts. They are being called 'traitors' and 'enemy collaborators', who are jeopardising China's national security for 'petty gains'.[97] Some observers also criticised the Chinese government's short-sightedness in allowing Chinese companies, including state-owned enterprises to build India's infrastructure and industry as part of its BRI. There were strong negative reactions to reports claiming that India's shield tunnelling machines were purchased from China at low prices, and are being used on the Sino-Indian border for Indian military projects targeting China.[98]

Some prominent Chinese voices have joined the chorus. Senior editor Ding Gang recently wrote in People's Daily that the Chinese government should establish policy measures to ensure that core technologies and talents remain within the country, restraining local manufacturers who may follow leading companies like Apple Inc., Xiaomi, and others in moving their production lines to India.[99] Similar views have been expressed by Zhang Yansheng, former director of the Institute of Foreign Economics at the National Development and Reform Commission, who noted that the new trend of China's industrial and supply chains extending overseas ran the risk of hollowing out Chinese manufacturing.[100] Professor Chen Xin of the Shanghai Advanced School of Finance, Jiao Tong University, has gone further, demanding "systemic policies to prevent India from industrializing". [101] He insisted China should not help India in building infrastructure or energy facilities, and should not sell industrial equipment to India.

However, the counterargument coming from a section within the Chinese strategic community suggests that Chinese industries need India for their own survival. "With production capacity reaching a ceiling at home, and China's commodity exports continuing to decline, what should Chinese enterprises do? …With the Indian market at a stage of economic take-off and having a population larger than China's, which company would not want to transfer its excess production lines to India to get a share of the pie?"[g] reads an analysis on the Chinese internet, which also denounces social media trolling of Chinese enterprises in India and emphasises that such investments have provided great dividends.[102] It further cautioned that if Xiaomi, Huawei and the like are not present in India, it will only make Apple and Samsung cheaper; if BYD loses India, it will be Tesla's gain; if Chinese construction and engineering companies like XCMG and LiuGong are absent in the Indian market, it will only make Caterpillar, Komatsu, and Johns Deere cheaper, impacting Chinese companies' price advantage at the global level.[h] This, it argued, would be the exact opposite of the Chinese government's 'new globalisation' vision under the BRI, which exhorts Chinese enterprises to go global and outcompete others in their categories.[103]

To put the Chinese outrage in perspective, it is importat to note that since the past few years there has been an ongoing debate within China over the issue of India's prospective industrialisation and its possible impact on Chinese manufacturing.[104] Earlier, the consensus within China was that 'Make in India' brings both threat and opportunity for China—threat in terms of direct competition for Chinese companies in low-end products, and opportunity from the point of view that this can force China to move in a high-end direction. However, in the following years, as an intensifying tech war with the US increasingly frustrated China's bid towards industrial

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g Various articles in the Chinese print media have highlighted how the decline in demand for construction machinery industry, overcapacity and price competition in the domestic electric vehicles and mobile phones market, the rise of production costs and the disruption caused by the COVID-19 pandemic in the last few years, have been forcing Chinese companies – such as LiuGong and XCMG in infrastructure construction, BYD in new energy vehicles, Shein in fast fashion cross-border e-commerce space – to make repeated attempts to enter India. They have argued that 'compromise' is inevitable as Chinese enterprises brace up for a new trade model of 'offshore manufacturing' or 'global localisation'. [See, for instance, "中国车企再赴印度(Chinese car companies go to India again)", *PEdaily*, March 30, 2023, https://news.pedaily.cn/202303/511078.shtml or "被印度盯上！又一家中国企业要"遭殃"？(Targeted by India! Is another Chinese company going to suffer?)", *tojoyun.com*, https://www.tojoyun.com/news/shangjieguancha/64af70a18ecc06103a5f04e2]

h In Chinese estimates, even without considering tariffs, manufacturing in India will be cheaper than manufacturing in China. If tariffs are taken into account, the price difference may reach about 30%. [See, for instance, "中国企业为啥都选择涌入印度, Why do Chinese companies choose to flock to India?", *Yicai*, December 24, 2015, https://www.yicai.com/news/4730267.html]

Chinese Social Media Outrage

upgradation, the threat factor associated with 'Make in India' got particularly amplified. Now, there seems to be great sensitivity within the Chinese society over the issue of the relocation of industries from China to India (either actively or passively), just as China's own path to industrial upgradation remains mired in uncertainties. It is not surprising that there are demands for the Chinese government to restrain Chinese companies from investing in India,[105] or at least to prevent them from establishing a complete industrial chain in India.[106]

> "There is great sensitivity within Chinese society over the issue of the relocation of industries from China to India."

Conclusion

China and Chinese enterprises are increasingly facing a dilemma vis-à-vis India. If Chinese enterprises pull out of India, as domestic public opinion demands, it will not only hit China economically, but will also amount to a triumph of India's Atmanirbhar initiative, which attempts to reduce India's dependence on China. The bigger apprehension for China is that India's experience may serve as a template for other nations that want to reduce their dependence on China, and facilitate the rise of a US-Europe-India industrial cooperation model that bypasses China.[107]

On the other hand, if Chinese enterprises choose to stay in India, it is feared that they will be forced to contribute to the country's economic take-off, helping it grow into another world factory and replacing China as a global manufacturing hub. Whatever these companies earn in India, they might be forced to spend in India without being able to repatriate the profits home.[108]

So far, Chinese enterprises have been reluctant to give up on the Indian market. Faced with various bans in Western markets and sluggish domestic consumption, they seem to have little choice but to prioritise India and engage in a long-term game with the Indian government.ORF

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