

# Following the Money: China Inc's Growing Stake in India-China Relations

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- On July 19, 2019, Brookings India hosted the fifth edition of its **Foreign Policy & Security Tiffin Talk** series, which features scholars presenting their evidence-based research to peers and practitioners. This series of closed-door seminars seeks to facilitate dialogue between researchers and policymakers on India's foreign and security affairs.
- **Ananth Krishnan**, Visiting Fellow, Foreign Policy Studies, Brookings India, presented his new research outlining an assessment of Chinese investment in India and its implications for India's diplomacy, trade strategy, and security.
- **Ambassador Shivshankar Menon**, Distinguished Fellow, Brookings India and former National Security Advisor (2010-2014), served as the lead discussant and **Dhruva Jaishankar**, Fellow, Foreign Policy Studies, Brookings India, moderated the seminar.
- In attendance were officials from the Ministry of External Affairs, Lok Sabha, National Security Council Secretariat (NSCS), scholars from India's leading think tanks and universities, members of the media, and the private sector.

## Filling the Gaps

Ananth Krishnan presented a comprehensive outline of the surge in Chinese investment into India since 2014, covering major sectors such as infrastructure, energy, automobiles, consumer goods, and real estate. In doing so, the speaker revealed gaps on two notable fronts that have been overlooked. First, the gross underestimation of Chinese investment into India in the official figures of both countries. The speaker pointed out that statistics did not account for all acquisitions by Chinese companies in India's technology sector, nor Chinese investment routed through third-party countries.

Second, in presenting a more complete picture of Chinese investments and acquisitions in India, the speaker underscored

the transformation post 2014 in the trade relationship between both countries. "For many young Chinese, the lens through which they look at India today is shaped by seeing India as a market." This can be witnessed in the domain of tech companies, startups and e-commerce in India, wherein every big Chinese company in this sector is increasingly involved. This marks a departure from the erstwhile transactional trade relationship of the 2000s, characterised by India's one-sided dependence on China. Given these new trends, the speaker raised a pertinent question on what implications this would have for India's trade strategy and its larger bilateral relationship with China.

## Emerging Stakeholders in Chinese Trade and Foreign Policy

Taking a closer look at Chinese investment abroad, the speaker noted that both State-owned Enterprises (SOEs) and the private sector have emerged as key players and thereby, stakeholders in Chinese diplomacy. Acknowledging the symbiotic SOE-state relationship, panellists emphasised the ambiguous role of private sector companies in pursuing state objectives, given its recent "going out." An important question raised at this juncture was whether India should treat these companies as different from SOEs, particularly when concerned with acquisitions in its tech industry. A participant suggested that the relevant case study of India's 5G networks and its impact on data security should be salient in this debate.

Further, Chinese provinces have occupied an increasingly significant role in establishing their own relationship with different

countries and thereby actively participating in Chinese diplomacy. In India, three Chinese provinces account for half of the total trade between both countries. In addition to the challenges posed by infrequent meetings of existing joint working groups, the speaker highlighted India's missing outreach strategy involving provincial governments and private sector companies as new stakeholders in the relationship. In fact, this results in less coordination and thereby discrepancies in the way Indian central and state governments approach Chinese investment, wherein a project may be approved at the Centre but faces impediments at the state-level. The panellists noted how cognisance of these new actors in India's foreign policy strategy would allow it greater leverage in harnessing these factors that otherwise act as constraints in trade.

## Where Does India's Leverage Lie?

A recurring question posed by participants in the discussion was whether India has, in turn, a long-term strategy in achieving what it wants from this transformation in trade relations. A participant highlighted that across industries, Chinese companies are often “pleasantly surprised” by India’s regulatory framework for FDI into the country, which allows sufficient freedom and leeway, as opposed to the Chinese model. A direct consequence of this is the decimation of India’s nascent mobile phone industry. Therefore, while encouraging foreign investment, it is equally imperative to build capacity for the protection of domestic industries.

On securing domestic business interests abroad, participants also raised the concern of whether mass Chinese investments have in turn improved India’s access to Chinese markets. Given the case of India’s pharmaceuticals sector, the balance is evidently more favourable towards China. Further, the growth of India’s telecom industry, despite reservation, is one case that reflects China’s de facto lobby in major Indian companies across sectors. In comparison, however, there is no trade representative in Beijing to facilitate Indian investment into the country. Given these glaring gaps, participants pointed towards the need to devise a dual approach to increase India’s leverage, which at once, encourages more investment into India and second, improves domestic companies’ access to Chinese markets.

## Shaping Relations Outside Trade

Going beyond trade, participants expressed caution over complacency that may arise out of attractive investments into India. Chinese acquisitions in India’s tech sector, which includes Indian apps providing e-wallet, transport, food-delivery, and health among other services, may give China access to sensitive data. Insight from such data would allow Chinese companies to predict consumer behaviour, cultural patterns, and other information of strategic relevance. A participant underlined the geo-strategic implications of Huawei’s bidding for network equipment in the North as compared to the lack thereof in the southern states of India, as an example of China’s strategic approach to acquisitions.

The absence of a comprehensive policy to manage and regulate investments makes it difficult for India to leverage itself in other aspects of its relationship with China. A participant noted that core bilateral issues such as the border dispute would less likely be impacted. A conflict on the border may, however, impair investment in India. In unravelling the complexities of Chinese investment, participants emphasised the importance of understanding the implications it has for India’s security and the urgent need to inject these considerations that extend beyond the scope of trade to India’s foreign policy.



*(From L to R) Ambassador Shivshankar Menon, Distinguished Fellow, Brookings India; Ananth Krishnan, Visiting Fellow, Foreign Policy Studies, Brookings India; Dhruva Jaishankar, Fellow, Foreign Policy Studies, Brookings India.*

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