On April 30, 2020, Brookings India organised its first Foreign Policy & Security Studies webinar panel discussion to discuss a recent Brookings India report, "Following the money: China Inc’s growing stake in India-China relations" by Ananth Krishnan, former Visiting Fellow at Brookings India.

The panel featured Amb. Shivshankar Menon, Distinguished Fellow, Brookings India and former National Security Advisor; Dr. Lu Yang, Fellow, Institute of the Belt and Road Initiative, Tsinghua University, Beijing; Dr. Janka Oertel, Director, Asia programme, European Council on Foreign Relations; Ananth Krishnan, journalist and former correspondent in Beijing, The Hindu.

The panel was moderated by Dr. Constantino Xavier, Fellow, Foreign Policy and Security Studies, Brookings India. In attendance were over 200 participants from around the world who tuned in via Zoom and YouTube.

Growing Chinese Foreign Direct Investment into India

Following the money: China Inc’s growing stake in India-China relations, a new report by Brookings India details how since 2014, an influx of Chinese capital in India has transformed the structure of India’s trade and investment relations with China. The paper notes that net Chinese investment in India rose from USD 1.6 billion, in 2014, to over USD 26 billion in 2019.

Ananth Krishnan began the discussion by noting that investment funds flowing into India in the last decade from China was part of a broader trend of investments around the world, and not unique to India. “Between 2013 and 2016, outward Chinese investment pretty much doubled”, according to him to around USD 200 billion, with India being relatively low ranked during this time. He also referred to rising Indian concerns about Chinese investments in “critical” sectors like technology or finance, and the blurred boundaries between the Chinese state and private companies.

Lu Yang, commenting on a part of Krishnan’s paper that discussed the perception of mistrust regarding the relationship between the Chinese private sector and the Chinese state, said “the space in Chinese markets is limited, and this is why they go out [of the country] to look for more profits,” She stated that these processes are actually market-driven, and are market-led rather than state-led.

India’s new FDI Policy

The recent decision regarding FDI flows from neighbouring countries was a point of discussion in the current context as well. Krishnan stated that to him it was unclear what triggered the change of the FDI rules, although it could well be linked to the recent media attention on the increased FDI stake in HDFC.

Amb. Menon pointed out that the recent FDI rules have “been among the set of ideas that have been in the toolkit which have been discussed in government for quite some time – it’s not a brand new idea.” He opined that the interesting thing is rather its implementation as declared policy, coming as it does in the context of the general process of disenchantment with other free-trade agreements such as walking away from the RCEP. He favoured a wait-and-watch approach, given reports that Chinese investments could be fast-forwarded, and that it was likely less about reduction of Chinese investments and more about directing where they go.

“What the Europeans have tried to do is find a unified approach”: The EU’s approach to screening

Janka Oertel provided insight on the European experience on FDI screening and China, discussing how the debate started in 2008, where Chinese investments helped in dealing with the fall-out of the financial crisis but also led to growing wariness regarding investments in certain sectors – similar to where the Indian debate is at.
She highlighted how FDI was not the only category by which this debate counted, as it also related to other sectors like research collaborations. “What the Europeans have tried to do is find a unified approach,” but she noted the EU’s challenges in generating convergence out of various nations that often have different economic ideologies. She discussed the EU’s recent voluntary screening system: while some countries have the capacity for national screening, other EU members could draw on the expertise in Brussels or refer to it.

She noted that the EU’s goal was to enhance transparency of what is actually coming into the EU and avoid market distortions through state-coffer-led investments, which is very similar to what India wants. She thus noted the importance of cross-communication and how “this kind of cooperation can boost resilience in general.”

Will COVID-19 affect India-China relations?
The session also focused on the implications of COVID-19 on India-China relations and the global order. Regarding the increasing calls for inquiries into the role of China in exacerbating the situation, Amb. Menon said, “a lot of what we’re seeing now is really noise.” He noted that six months from now, when there’s a different scenario and a need to rebuild the social fabric and create economic recovery, governments and individuals will start to realise that this can’t be done alone. He also added, “anyway there should be an investigation – I am surprised that China itself has not come forward and said let’s do a scientific, objective investigation. Because any other attitude actually looks guilty. But that's not assigning culpability, victor's justice or blaming somebody, it's about seeing that we don't end up in this position again in the future.”

Oertel provided a European perspective about how opinion has constantly shifted between COVID-19 changing everything and nothing with respect to China. She stated, “we have a couple of existing fault-lines in Europe-China relations and they are going to get more pronounced due to COVID.” She envisaged “two roads”– one, where the countries emerging from crisis decide that the economy comes first, and accept Chinese aid and financing, and another where new suspicions are created and “the masks are off” between Brussels and Beijing.

During the question-and-answer session at the end of the webinar, Yang provided an optimistic note for the future, discussing how transparency is crucial. As “grown-ups”, she emphasised, India and China will be able to keep their relationship on an even keel.

Watch the full video:
https://www.youtube.com/watch?v=6BhEaetvl7M&t=1041s