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FOLLOWING THE MONEY:

China Inc's Growing Stake in India-China Relations

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Abstract

The growth of Chinese investments into India since 2014 has changed the nature of what has been a largely transactional trade relationship. Chinese companies are emerging as prominent players and investors, in areas ranging from infrastructure and energy to newer sectors of interest such as technology startups and real estate. Drawing on a range of sources, this paper aims to provide a more complete picture of Chinese investment in India today. The total current and planned Chinese investment in India has crossed US$26 billion at present. This growth in investment has several implications for the India-China relationship. For the first time, Chinese companies are seeking to establish a long-term presence in India, and their acquisitions in Indian companies give them an enduring stake in the Indian market. The changing nature of India's trade and investment relations with China will necessitate a new method and pattern of engagement from New Delhi, especially with the private sector in China and provincial governments that have emerged as important interest groups in shaping China's diplomacy with India. The influx of Chinese investment also poses particular challenges for India's regulation of foreign investment, underlining the need for a transparent, credible and predictable regulatory framework that strikes a better balance between creating a friendly, open and predictable investment environment on the one hand, and safeguarding longer-term considerations of security and privacy on the other.

Introduction

Since 2014, an influx of Chinese capital in India has transformed the structure of India's trade and investment relations with China. Until that year, the net Chinese investment in India was US$1.6 billion, according to official figures. Most of the investment was in the infrastructure space, involving major Chinese players in this sector, predominantly state-owned enterprises (SOEs). In the next three years, total investment increased five-fold to at least US$8 billion, according to data from the Ministry of Commerce (MOFCOM) in Beijing, with a noticeable shift from state-driven to market-driven investment from the Chinese private sector. Official figures, however, underestimate the amount of investment as they neither account for all Chinese companies' acquisitions of stakes in the technology sector, nor investments from China routed through third-party countries, such as Singapore. For instance, a US$504 million (Rs. 3,500 crores)[1] investment from the Singapore subsidiary of the mobile and telecom firm Xiaomi would not figure in official statistics because of how investments are measured.

The aim of this paper is to provide a more complete picture of Chinese investment in India and to assess the implications of Chinese investment and acquisitions for India's diplomacy, trade strategy, and security. Rather than attempt to provide a definitive figure, which is beyond this paper's scope, the broader objective is to examine the growing stakes of Chinese companies in India and assess the implications for the relationship. This paper draws on MOFCOM data, publicly available information sourced from Chinese firms, press reports in China and India, and background information shared by Indian and Chinese officials. It is possible to estimate that the total investment from China exceeds official figures by at least 25%, and this is a very conservative estimate. When announced projects and planned investments are included, the total current and planned investment is three times the current figure, crossing at least US$26 billion. In greenfield investments and capital invested in acquiring or expanding existing facilities in India, Chinese companies have invested at least US$4.4 billion. Chinese companies have also invested in acquiring stakes in Indian companies, mostly in the pharmaceutical and the technology sectors, and participated in numerous funding rounds of Indian startups in the tech space. Another US$15 billion approximately is pledged by Chinese companies in investment plans or in bids for major infrastructure projects that are as yet unapproved.

These figures are likely an underestimation as there are several limitations in the exercise of mapping Chinese investments in India. For one, there is no exhaustive list or record of Chinese companies operating in India or their investments with either the Indian or Chinese governments. One reason is the routing of investments through different countries. A second is the different routes of foreign direct investment (FDI) into India, as a result of which complete FDI statistics are not available with a single government agency. Chinese ministries, on the other hand, may have more accurate country-wise data but tend to be less forthcoming in sharing it. Complicating the picture are investments from funds whose links to Chinese entities are difficult to ascertain. Another limitation is the inability to confirm whether stated investments by Chinese companies have materialised to the fullest extent. Verifying this is beyond this paper's scope.

The first section of the paper, "Actors in China's foreign policy", looks at how China's foreign policy is shaped by the growing weight and stakes of new actors, such as the private sector and provincial governments. The second section, "China Inc. and India" traces the changing strategies and interests of Chinese companies, both state-owned and private, in doing business and investing in India. The section on "Making in India"

[1] US Dollar-Rupee exchange rate of 69.8 is used throughout the paper.

describes and analyses investments in five sectors: infrastructure, energy, automobiles, consumer goods, and real estate. The fourth section, "Buying in India", looks at acquisitions focusing on the technology sector in particular. The last two sections examine the implications of this on India's relationship with China and suggest five key recommendations for India's trade and investment policy.

The paper argues that India needs to proactively engage with new actors in China's foreign policy, particularly the private sector and the provincial state governments, where many decisions regarding trade or investment deals are made. India needs to reexamine and update its trade and investment strategy and better leverage the growing stakes of Chinese companies in the Indian market, if it wishes to more successfully pursue its trade objectives with China. The flush of investment from China's private sector poses new challenges for India's regulators and has underlined the need for a transparent, credible and predictable regulatory framework. In China, the boundaries between the state and private sectors are blurry at best, and some of China's most prominent private technology companies, including those that are major investors in India, are playing key roles in advancing government initiatives at home, including in running an effective censorship regime.

This blurred separation between state-owned enterprise (SOE) and private enterprise raises the question of whether the Chinese private sector can indeed be considered as an entirely distinct entity from the state. This question becomes even more relevant with Chinese and other foreign firms acquiring controlling stakes in Indian companies, particularly in the technology sector where definitions of security or strategic implications are rapidly evolving. Rising investment from China certainly brings advantages both for the government of India, which is looking to correct a lopsided trading relationship, and for Indian companies in need of capital. This paper argues that while it is in India's interests to enable this process through creating a friendly, open and predictable investment environment, the government will also need to more proactively safeguard longer-term considerations of security and privacy as it opens the door to new sources of investment.

A changing landscape: Actors in China's foreign policy

In the past two decades, the expanding economic global footprint of Chinese companies, both SOEs and the private sector, has seen them become major players and new stakeholders in China's diplomacy. Traditionally, responsibility for taking forward relations with major countries, including India, rested with three key power centres in China: the Communist Party of China (CPC), the State Council under which ministries of the government function, and the People's Liberation Army (PLA). In a one party-ruled state, these three authorities are not distinct entities but overlap. Both the ministries of the State Council and the PLA function under the party and ultimately answer to the party. In the party, the highest decisionmaking authority is the seven-member Politburo Standing Committee (PBSC), which is headed by General Secretary Xi Jinping. Xi also holds the titles of President of the People's Republic of China and Chairman of the Central Military Commission.

With China's growing economic profile abroad, the number of interest groups looking to shape China's foreign policies has expectedly grown, now extending beyond these three power centres to include influential SOEs, major companies in the private sector, and provincial governments. While the number of interest groups has certainly increased, the key decision-making processes remain highly centralised within the PBSC and related party bodies. Decision-making and formulating policy rests with the party leadership, while implementation is the responsibility of government ministries under the State Council, who are generally seen by the party as "managers" who do "not make policy but implement it".[2]

The PBSC is the top decision-making body, but its focus is largely on domestic issues and governing the country. Foreign policy deliberation is delegated to the party's central leading small group for foreign affairs, one of around a dozen "small groups" set up under the party's Central Committee. In the past, the groups left much of the authority to make and execute policy to the ministries of the State Council, such as the foreign ministry and commerce ministry. But a major restructuring of the party-state architecture by the Xi government in 2018 gave greater weight to party organs. With the restructuring, the foreign policy leading group has been elevated to a Central Foreign Affairs Commission, a move seen in Beijing as shifting authority away from the government ministries and back to the party.[3]

The other party bodies involved in overseas engagement are the International Liaison Department, which, in theory, is responsible for party-to-party exchanges but is thought to hold a wider and more ambiguous brief in shaping foreign policy and foreign relations, and the United Front Work Department, which is particularly relevant to relations with countries with significant overseas Chinese populations, or as is the case with India, with a large Tibetan community. Besides the party organs, the PLA is also a key foreign policy actor, particularly in relations with countries such as India that share territorial disputes with China where the PLA is seen as "a staunch advocate of a hard line" relative to other interest groups.[4]

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[2] Linda Jakobson and Dean Knox, New Foreign Policy Actors in China, SIPRI Policy Paper No. 26 (2010), https://www.sipri.org/publications/2010/sipri-policy-papers/new-foreign-policy-actors-china p 5, 8, 10

[3] Bai Tiantian, "CPC Centralizes Foreign Affairs Decision Making Power", Global Times, March 22, 2018 http://www.globaltimes.cn/content/1094795.shtml

[4] Jakobson and Knox, p. 13

While the powers may lie with the party and the PLA, it is the "managers" of the government that are the main interlocutors for foreign governments — an intended division of responsibility that provides a buffer for the leadership, even if a perennial source of frustration for foreign diplomats who are often left with the sense of negotiating with the wrong interlocutor or at least one fairly lower down the chain of command. Complicating the question of engaging with the right interlocutor is the gradual dilution of the MFA's authority in foreign policy decisionmaking .

The biggest driver of this change is the growing weight of commercial considerations in shaping Chinese foreign policy, particularly with countries with which economic ties are a significant element in bilateral relations. In the first ten years after the "Going Out" policy of the early 2000s, Chinese companies invested US$178 billion abroad. Among the new government actors were the Ministry of Commerce and the National Development and Reform Commission (NDRC), the top planning body. Underlining their influence, both agencies have in recent years been able to post their officials in many of China's embassies overseas.

The other newly prominent interest group is the provincial governments. While provincial governments have always played a key role in China's engagement with the world as the main interlocutors for foreign firms investing in China, the surge of outward Chinese investment has seen them emerge as a stakeholder in China's assets abroad. For instance, in 2008, businesses belonging to city or provincial governments accounted for over one-fifth of top Chinese companies investing overseas.[5] In trade with India, three provinces alone accounted for more than half of the US$84.4 billion total bilateral trade in 2017 — Guangdong (US$21.05 billion), Jiangsu (US$13.91 billion) and Zhejiang (US$12.32 billion).[6] Certain provinces have also been tasked with diplomatic outreach activities aimed at specific regions. For instance, Yunnan is the centre for China-South Asia outreach activities and trade fairs, while Guangxi plays a similar role in Southeast Asia.

It is important to qualify that the opacity of how these different actors operate or push their agendas makes it difficult to ascertain how this proliferation of different interest groups impacts Chinese foreign policy decision-making. What is clear, however, is that the state sees commercial engagement as one avenue to advance foreign policy and security agenda and that it in its interest to support the overseas expansion of Chinese companies.[7] This is especially clear in the use of SOEs. Top SOEs and the political leadership have a close and symbiotic relationship, and SOEs are certainly a part of the party machinery. More often than not, the head of a major SOE would outrank most officials of the MFA barring the foreign minister, as they are likely to hold ministerial or vice-ministerial ranks.

Less clear is the use of the private sector in pursuing state objectives, particularly as the "going out" of private sector companies is a more recent development. Moreover, the relationship between the Chinese private sector and the state is not as clearly defined as the SOE-state relationship. Treating SOEs and the private sector as two separate entities is also problematic, considering, for instance, state or provincial investments and stakes in "private" firms. While the private sector in China does not occupy a formal space within the party hierarchy as the major SOEs do, the heads of some of the major private sector players, including those who are leading investors in India, do occupy formal positions in government bodies and share close relations with the provincial governments of the states where they are located.

[5] Jakobson and Knox, pp. 26, 32
[6] "India-South China Trade Figures", Consulate General of India in Guangzhou https://www.cgiguangzhou.gov.in/eoi.php?id=South_China and "India and Eastern China", Consulate General of India in Shanghai https://www.cgishanghai.gov.in/pages?id=3
[7] Jackobson and Knox, p. 48

While the Chinese private sector's abiding objectives, as in any country, are maximising profits and answering to shareholders, it is to be noted that its roles and responsibilities to further the goals of the Communist Party at home are clearly laid out in policy.

These responsibilities have only been made clearer by the Xi Jinping government. For instance, an official policy paper released in March 2019 called on the high-tech and newly-emerging industrial sectors to "fully implement and fulfill" the spirit of the 19th Party Congress and Xi Jinping's vision. The party has co-opted tech CEOs by appointing them to either the National People's Congress (legislature) or the Chinese People's Political Consultative Conference (a politically advisory body, or upper house), including Xiaomi's founder and CEO Lei Jun and Baidu's founder Robin Li. By the end of 2016, close to 70% of non-state owned companies had Party cells or branches in their organisations, and according to Qi Yu, the deputy head of the Party's powerful Organisation Department, the Party branches had a "positive effect" on corporate activities and they could be "organically integrated and coordinated with corporate production and management for the healthy development of the company."[8] Alibaba, for instance, has played a prominent role in helping promote the party's propaganda goals at home, developing and promoting a widely-used app that tests and ranks users on their knowledge of Xi Jinping's governing philosophy, an app that party members are obligated to use. The app has been seen as an example of the close relationship between the tech sector and the party.[9]

[8] Kenji Kawase, "In China, Private Companies Walk a Fine Line", Nikkei Asian Review, May 23, 2018 https://asia.nikkei.com/Spotlight/Cover-Story/In-China-private-companies-walk-a-fine-line2

[9] Echo Huang, "This app is a hit symbol of the uneasy relationship between China's tech giants and the party", Quartz, February 19, 2019 https://qz.com/1553407/this-hit-app-is-a-symbol-of-the-uneasy-relationship-between-chinas-tech-giants-and-the-party/

China Inc in India, 2000-2018: From state-led to market-driven

It is only in the past five years that Chinese enterprises have begun to emerge as major stakeholders in the India-China relationship. Trade relations between the two countries have grown rapidly since the early 2000s, from under US$2 billion in the year 2000 to US$38 billion in 2008, when China became India's largest trading partner — a position it still held in 2018, by when bilateral trade had increased 2.5 times to US$95.5 billion.[10] Despite this rapid growth, the nature of the trading relationship from 2000 to 2014 did not create the incentives for Chinese enterprises to emerge as long-term stakeholders in the Indian market or in shaping China's policies towards India. The relationship was broadly transactional, driven by Indian purchases of Chinese machinery and equipment, which account for more than half of the total Indian imports from China. Indian imports made up 80% of the two-way trade in 2018. Besides the sales of equipment, project contracting was the other major interest for Chinese companies in India. Between 2000 and 2010, India emerged as the biggest overseas market for project contracting, with the cumulative value of projects in this period reaching US$53.46 billion.[11] In both equipment purchases and execution of contracts, Chinese cost-competitiveness was the determining factor. As a result of this largely transactional relationship, Chinese companies were neither required to establish a permanent presence in India nor invest in the country as it remained fairly low on the list of key destinations of Chinese outward investment.

The rapid growth in bilateral trade in the 2000-2014 period has been hailed by both sides as the most significant bright spot in an otherwise troubled relationship. However, the impressive trade volumes masked structural problems in the relationship, with two significant consequences. Firstly, the lopsided trade balance has become an increasing source of tension and led to a renewed debate in India on the merits of pursuing closer trading relations with China. While imports of Chinese equipment and machinery soared, India's low volume of exports to China remained limited to raw materials, such as low-grade ores, cotton, and chemicals. Meanwhile, Indian companies, particularly in the Information Technology and pharmaceuticals sectors, have complained of a range of non-tariff barriers that have limited their access to the Chinese market.[12] Forced to retaliate due to growing discontent from domestic manufacturers unable to compete with Chinese costs, India has placed anti-dumping duties on 99 products imported from China and initiated more anti-dumping investigations targeting China than any other country. Of the 99 duties imposed as of January 2019, 40 duties were on chemical imports, 11 on steel, 10 on glass, eight on fibres and yarn, and five on electrical and electronic items and accessories.[13]

Secondly, the nature of trade did not lead to the kind of interdependencies and close linkages that China shares with some of its other major trading partners such as the United States, Japan, and South Korea. Unlike those relationships, Chinese companies were neither deeply invested in India — besides viewing it as one of many key overseas markets for equipment sales and for executing project contracts — nor dependent on their relations with Indian companies for technology. With India, the trading relationship had a one-way dependency, with China accounting for 73% of telecommunication equipment, 82% of semiconductor devices, 81% of antibiotics and 75% of active pharmaceutical ingredients.[14]

[10] Embassy of India, Beijing https://www.eoibeijing.gov.in/economic-and-trade-relation.php and General Administration of Customs, China www.customs.gov.cn
[11] Ministry of External Affairs, India https://mea.gov.in/Portal/ForeignRelation/China-January-2012.pdf
[12] Amitendu Palit, *China-India Economics*, Routledge (2012), pp. 66-72
[13] Press Information Bureau, Government of India http://pib.nic.in/newsite/PrintRelease.aspx?relid=187994
[14] Biswajit Dhar, "Chinese Cheer for Indian Exports", The Hindu Business Line, March 4, 2019 https://www.thehindubusinessline.com/opinion/chinese-cheer-for-indian-exports/article26431736.ece

That has now begun to change. If the first phase of the trading relationship was marked by a distant, transactional yet robust engagement, the post-2014 period has seen a new kind of engagement marked by two changes. Firstly, this period has seen rapid growth in Chinese investment in India. Until 2014, the total Chinese investment in India, according to Chinese Ministry of Commerce figures, was US$1.6 billion. By the end of 2017, that number had increased to at least US$8 billion according to official figures, which, as we shall see, underestimate the total investment.[15]

What explains the growth in investment? The surge in outward investment from China in this period was by no means limited to India, and was part of a broader surge in Chinese investment abroad in the 2013-2016 period. Outward Chinese investment almost doubled from US$107.8 billion in 2013 to US$196.1 billion in 2016 (following which overseas investment fell to $158.3 billion in 2017 and US$143 billion in 2018, on account of measures to curb capital flight, among other factors). From 2014 to 2018, India only ranked 31st in the list of top destinations for Chinese outward investment, even if the investment was higher compared to previous years. Among the main sectors receiving this investment in the 2014-2018 period were infrastructure, automobiles, energy, real estate and consumer goods sectors.[16]

The second big change, starting in 2016, was the entry of Chinese capital in the technology sector through investments and acquisitions of Indian startups. Unlike the pre-2014 period, much of the investment is from the Chinese private sector. Dozens of Chinese technology firms and venture capital players — led by tech giants Alibaba and Tencent — have acquired minority or controlling stakes in Indian companies. The single biggest acquisition, however, was in pharmaceuticals — the US$1.09 billion acquisition by Shanghai-based Fosun of a 74% stake in Gland Pharma, based in Hyderabad.[17] As a result of these two changes, Chinese companies are, for the first time, not only investing to establish a long-term presence in India, but also acquiring controlling stakes and developing joint strategies with Indian companies, giving them a continuing stake in the Indian market.

[15] Figures from MOFCOM, Beijing. Government of India's FDI figures peg the figure at around $2 billion, which Indian officials say understates the total investment figure.
[16] Figures from National Bureau of Statistics, China cited in Divay Pranav, "Who is Attracting Chinese FDI", November 26, 2019 Invest India https://www.investindia.gov.in/team-india-blogs/who-attracting-chinese-fdi-recent-trends-emerging-hotspots-and-future-trajectory
[17] Press Release from Fosun Pharma, October 3, 2017 http://media.corporate-ir.net/media_files/IROL/19/194273/E02196_ann_1003_2008.pdf and Viswanath Pilla, "China's Fosun to Expand Gland Pharma Operations in India", MoneyControl.com, https://www.moneycontrol.com/news/business/companies/chinas-fosun-to-expand-gland-pharma-operations-in-india-3596331.html

Making in India

China Inc. perceived 2014 as an inflection point, according to the only survey of Chinese enterprises in India, conducted in 2017 by the Industrial and Commercial Bank of China's Mumbai branch. Around one-third of the 800 or so, Chinese companies with a presence in India entered the market that year. Close to three-quarters are registered as private companies, while less than 10% are joint venture companies. Around 42% are in the manufacturing sector, while 25% are in infrastructure. The rest are in telecom (9%), petrochemicals (8%), and software and IT (4%). The number in the technology sector is likely to have risen in the past two years with the continuing increase in investment in this sector. Around half of the companies have a staff of 20 or less, while 15% have a staff of more than 100 (of which 5% have 300 to 800 staff, and 5% have more than 800 employees). According to the survey, more than half of the companies see the five-year period from 2017 to 2022 as a window of opportunity to invest in India. Around 35% of Chinese enterprises think that India's economy will perform well in the next three years while 27% think that India will develop rapidly in the next three to five years. Only 12% of the companies felt that the Indian economy would not significantly change in this period.[18]

One of the several constraints in accurately determining the extent of cumulative investments in India is that there is no exhaustive list or record of the Chinese companies operating in India available with either the Indian or Chinese governments. Both India's Department for Industrial Policy and Promotion (DIPP) and China's MOFCOM have different estimates of the amount of investment, the former pegging it at around US$2 billion and the latter at US$8 billion. Both figures are conservative estimates, as they neither account for acquisitions in the technology sector nor investments routed through third-party countries, for instance by the subsidiaries of Chinese companies in Hong Kong or Singapore which are commonly favoured routes of overseas investment. Despite these limitations, this paper will attempt to present an overview of the major greenfield and brownfield investments by Chinese firms, drawing on MOFCOM data, publicly available information sourced from Chinese firms, and press reports. This section will focus on key investments in five sectors: infrastructure, energy, automobiles, consumer goods, and real estate sectors. The following section will look at acquisitions in the technology sector.

Infrastructure

From the early 2000s, Indian demand for Chinese equipment and machinery has been a key driver of bilateral trade. Among the first major Chinese entrants into the infrastructure space was the Changsha-based construction giant Sany, now the world's sixth-largest heavy equipment manufacturer. Sany's story in India underlines the transition from a sales-only focus to longer-term investment in the country. Sany began exporting machinery to India in 2002, a time when the construction equipment space was dominated by German, American, and Japanese firms. It took almost a decade before the company decided to finally establish a manufacturing presence in India, investing US$70 million in a 30,000 square meter plant in Chakan, near Pune, which became the first major Chinese player in the infrastructure space to start manufacturing in India when it launched in April 2010. The plant is also Sany's biggest outside China. As of 2016, the company has a 50% market share in truck cranes, and its turnover in 2019 is expected to cross US$144 million

[18] Report from China Council for the Promotion of International Trade (CCPIT), Beijing (Chinese) http://www.ccpit.org/Contents/Channel_4126/2017/0216/761377/content_761377.htm

(Rs. 1,000 crores). The company's total investments in India, for manufacturing and distribution, have crossed US$86 million (Rs. 600 crores), with a further US$140 million (Rs. 1,000 crores) earmarked to upgrade the Pune plant.[19]

Another early entrant in the infrastructure space was a domestic rival of Sany's, the Guangxi-based Liugong, the world's tenth-largest construction equipment manufacturer. Like Sany, Liugong's India operations first began with sales of equipment in 2002. It took almost a decade for the company's first plant in India, in Pitampura, Madhya Pradesh, to start functioning. Now, the Pitampura plant, built at the cost of US$43 million (Rs. 300 crores), is being expanded with a planned investment of US$35 million (Rs. 250 crores). Liugong is a rare example of a Chinese company using India as an export hub — the equipment manufactured in Pitampura is now sold by the company in Africa and across South Asia.[20]

In infrastructure, Chinese companies have recently started making inroads in highway construction and the railways sector. In 2016, China Railway Rolling Stock Corporation (CRRC), an influential State-owned Enterprise (SOE), which is one of the biggest players in China in roads and railways, announced that it had opened a US$63.4 million plant in Bavo, Haryana. It was a joint venture, described as the "first [by a] foreign company to set up an assembly line of rail transportation equipment in India". The company said the plant will repair and manufacture railway locomotive motors.[21] CRRC was also awarded a 10-year contract to supply 69 coaches for the Nagpur metro and to maintain two urban rails in the city, as well as provide 112 coaches for the Kolkata metro.[22] Another prominent SOE behemoth in this space, the China Railway Construction Corporation (CRCC), has also entered the market with a bid for a Rs. 40,000 crores (US$5.7 billion) contract to build 3,000 km of highways. If successful, it would be the single biggest contract awarded to a Chinese firm.[23] Chinese railway companies have expressed interest in taking forward a bullet train corridor, and are undertaking feasibility studies for a Delhi-Chennai route, although that is yet to fructify.

Two of China's biggest steel companies have also set up plants in India. The first entrant was the Xinxing Group, which announced a two-phase project in a joint venture with three Indian partners to invest US$1.25 billion (Rs. 8,735 crores) in Karnataka. The first phase, for an 800,000-tonne iron ore pelletisation facility, was launched in 2011, while a second phase with a three million tonne steel capacity is in the works.[24] The Xinxing Group was originally a company that was set up and run by the People's Liberation Army's Logistics Department. It was subsequently cleaved off into a separate entity, as many military-run businesses were, as

[19] Statement from Sany Group (Chinese) http://www.sanygroup.com/gskw/35-4899.html; Abishek Banerjee, "Aim to be 1 Billion Entity by 2020: Sany India", Business World, September 19, 2017 http://www.businessworld.in/article/Aim-To-Be-1-Billion-Entity-By-2020-Sany-India/19-09-2017-126548/; and Press Trust of India, "Sany to Invest Rs 1000 cr in Pune Plant" published in Economic Times on December 16, 2018 https://economictimes.indiatimes.com/industry/indl-goods/svs/engineering/sany-india-to-invest-rs-1000-cr-in-pune-plant/articleshow/67113358.cms

[20] Bhavya Kaushal, "China's 2.5 Billion Investment Plan in India", https://www.entrepreneur.com/article/322858 and The Hindu Business Line, "Liugong India Plans to Double Turnover in Two Years", December 11, 2018 https://www.thehindubusinessline.com/news/liugong-india-plans-to-double-its-turnover-in-2-years/article25719741.ece

[21] Statement from China Railway Rolling Stock Corporation on August 31, 2016 http://www.crrcgc.cc/en/g7389/s13996/t278165.aspx

[22] Xinhua, "China-made Metro Coaches to be Exported to India Come Off Production Line", published in China Daily on November 26, 2018 http://www.chinadaily.com.cn/a/201811/26/WS5bfbbb11a310eff30328b1b0.html

[23] Rajat Arora, "Chinese Corporation to Bid For Rs 40000 crore Highway Contract in India", Economic Times, July 13, 2016 https://economictimes.indiatimes.com/news/economy/infrastructure/chinese-corporation-to-bid-for-rs-40000-crore-highway-contract-in-india/articleshow/53183652.cms

[24] Steel Guru, "Xinxing Ductile Iron Pipes to Expand Operations in India", December 16, 2011 https://steelguru.com/steel/xinxing-ductile-iron-pipes-to-expand-operations-in-india/241110 and "Xindia Steels to Set Up Pellet and Steel Plant in Karnataka", August 29, 2011https://steelguru.com/steel/xindia-steels-to-set-up-pellet-and-steel-plant-in-karnataka/222522; and Press Trust of India, "XIndia Steels Ltd to invest Rs 8,735 crore in Karnataka", published in Economic Times on February 28, 2008 https://economictimes.indiatimes.com/industry/indl-goods/svs/steel/xindia-steels-ltd-to-invest-rs-8735-crore-in-karnataka/articleshow/2822962.cms?from=mdr

part of reforms of the PLA.[25] This once PLA-run company is now investing in steel plants in India. The other major investment is from the Tsingshan Holding Group, which also followed the joint venture route with a US$1 billion investment in an integrated steel plant in Dholera, Gujarat, with a further planned US$2 billion outlay in the second phase.[26]

Energy

An estimated three in four power plants in India use Chinese equipment.[27] As in the case of construction companies, equipment sales were the first point of entry for Chinese firms in the Indian market. While cost-competitiveness was the biggest selling point, the lack of after-sales servicing has been one obstacle — and one major advantage for India's BHEL.[28] Among the biggest exporters of power equipment to India was TBEA, which in 2014 announced the setting up an industrial park in Gujarat during the visit of President Xi Jinping. The first-ever China-dedicated industrial park in India was a watershed for China Inc in India. It was heralded by China as the first major joint project under the Modi and Xi governments, and was seen as a touchstone of a new phase in the economic relationship.[29] The TBEA-led industrial park was one of the two announced during the Xi visit. While the second park, led by automaker Beiqi in Maharashtra, was mired in delays and difficulties over land acquisition, the Gujarat transformer manufacturing facility took off, with a planned US$400 million outlay in what was then the single biggest Chinese investment in India. The first phase, with a US$150 million investment, has been completed.[30]

Other companies have followed a similar path of entry. For Shanghai Electric, one of China's biggest power companies, India is the biggest overseas market and one of its single biggest deals was the sale of 36 coal-fired thermal power generation units to Reliance Power in 2007. The deal is still the single largest business contract between Indian and Chinese companies.[31] According to the company, it has 12 power projects in India in operation supplying 20,000 MW, more than in any other country, and it is planning a joint venture with French company Alstom to manufacture boilers for power projects. Besides Reliance Power projects in Sasan in Madhya Pradesh, Krishnapatnam in Andhra Pradesh and Tilaiya in Jharkhand, Shanghai Electric is also a major supplier for Jindal Power, and signed a US$206 million contract with Haldia Energy to supply boilers, turbines, and generators for a 600MW plant.[32] Dongfang Electric, another one of China's big power companies, is the third major supplier of power equipment, with agreed deals for installing 28,000 MW worth of power generators as well as plans to build its first production facility in India, with a US$2 billion investment plan over a five-year period.[33]

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[25] From the Xinxing Cathay International Group website, http://english.xxcig.com/aboutus/index.htm

[26] Shramana Ganguly, "Chinese steelmaker Tsingshan Holding Group to invest $3 billion in Dholera for en electric battery plant", Economic Times, January 18, 2019 https://economictimes.indiatimes.com/industry/indl-goods/svs/steel/chinese-steelmaker-tsingshan-holding-group-to-invest-3-billion-in-dholera-for-en-electric-battery-plant/articleshow/67592872.cms

[27] Source: Indian Embassy, Beijing

[28] For more on the competition from Chinese power equipment suppliers, see Krishna Kant, "BHEL versus China", Fortune India, April 5, 2011, https://www.fortuneindia.com/enterprise/bhel-versus-china/101062

[29] Ministry of Commerce, People's Republic of China, statement on July 1, 2014 (Chinese) http://cafiec.mofcom.gov.cn/article/zqzhw/201407/20140700646800.shtml

[30] Zhongguo Jingji Wang (China Economic Net) http://intl.ce.cn/specials/zxxx/201111/04/t20111104_22815061.shtml (Chinese)

[31] Anupama Airy, "Shanghai Electric ready for India unit", Hindustan Times, March 5, 2012 https://www.hindustantimes.com/business/shanghai-electric-ready-for-india-unit/story-ewY1n7IFJchi1XhskqkdZL.html.

[32] Jaideep Mishra, "Shanghai Electric to set up plant in India", Economic Times, March 29, 2012 https://economictimes.indiatimes.com/industry/energy/power/shanghai-electric-to-set-up-plant-in-india/articleshow/12449067.cms

[33] Asian Power, "Dongfang Electric to Install 28,000 MW in India", https://asian-power.com/project/news/dongfang-electric-install-28000mw-in-india

The biggest change in the energy sector post-2014 is the emergence of renewables as a major interest for Chinese solar and wind energy companies. Sany, the infrastructure firm, has also entered the energy sector in India, and in 2016, it announced a "green energy commitment" and pledged to the Indian government that it would invest US$3 billion to develop 20,000 megawatts of wind and solar projects in India.[34] Andhra Pradesh is emerging as a hub, with Longi Solar and the China Electronics Technology Group Corporation (CETC) both investing in new facilities in Sri City. In 2018, Longi was the world's biggest exporter of photovoltaic modules in India.[35] To tap into the Indian photovoltaic market, in 2018, the company said that it will be investing US$224 million (Rs. 1,554 crores) in what is the biggest Chinese investment in Sri City.[36] That same year, the Beijing-based CETC announced a US$46 million (Rs. 320 crores) investment in a 200 MW PV manufacturing facility in Sri City.[37]

Automobiles

If the TBEA industrial park announced during President Xi's 2014 visit is an example of a Chinese manufacturing success story in India, the second park announced during the trip underlines the pitfalls. The second park, to be built in Maharashtra, was focused on the auto sector and anchored by the Beijing-based Beiqi Foton, which manufactures cars, trucks, and buses. This park, however, failed to take off, mired in delays over land acquisition as well as the company's hesitations in launching motor vehicles at a time when the Indian vehicle market was showing signs of a slowdown. The Beiqi plant deal with the Maharashtra state government had an ambitious US$240 million (Rs. 1,670 crores) investment plan over five-year, but now appears deferred indefinitely, if not entirely cancelled.

The entry of another Chinese auto major, the Shanghai-based SAIC motor corporation in 2019, could serve as a test-case to establish whether Chinese firms can make successful inroads into this sector. SAIC has announced ambitious plans to both manufacture in India and launch tailor-made cars for the Indian market. To begin with, the company has announced a US$288 million (Rs. 2,000 crores) investment to expand an older General Motors plant at Halol, Gujarat.[38] SAIC has also announced plans to enter the motor vehicles market in India through its MG Motors brand, along with a further US$350 million investment in a second manufacturing unit. SAIC is also considering launching electric Sports Utility Vehicles (SUVs) for the Indian market, announcing plans for a US$500 million investment.[39]

[34] Ministry of Foreign Affairs, China, statement on December 12, 2015 (Chinese) https://www.mfa.gov.cn/web/wjdt_674879/zwbd_674895/t1323724.shtml and Press Trust of India, "Sany Group to Invest $3 billion in India", October 15, 2015 https://www.businesstoday.in/current/corporate/sany-group-to-invest-3-billion-in-india/story/224883.html

[35] Statement from Longi Solar, July, 2018 https://en.longi-solar.com/home/events/press_detail/id/64_LONGi_Solar_s_Export_to_India_Reaches_an_Apex_in_January-May_2018.html

[36] Press Trust of India, "Solar module maker Longi to Invest in Andhra", September 24, 2015 https://www.livemint.com/Home-Page/bebzExhrPZzDpoz9L418iO/Solar-module-manufacturer-LONGi-to-set-up-plant-in-Andhra.html

[37] Statement from Sri City, "CETC Breaks Ground for its 200 MW Solar PV Cell Manufacturing Park in Sri City", March 15, 2018 http://www.sricity.in/en/news_events/cetc-breaks-ground-for-its-200-mw-solar-pv-cell-manufacturing-park-in-sri-city/

[38] Express News Service, "SAIC Motor to Invest Rs 2000 crore in Halol", Indian Express, July 6, 2017 https://indianexpress.com/article/business/companies/saic-motor-to-invest-2000-crore-in-halol-4737816/

[39] Sharmistha Mukherjee, "Chinese automaker SAIC may invest $350m, its subsidiary to launch 4 vehicles", Economic Times, February 28. 2019 https://economictimes.indiatimes.com/industry/auto/auto-news/chinese-automaker-saic-may-invest-350m-its-subsidiary-to-launch-4-vehicles/articleshow/68196719.cms

SAIC is not the only Chinese auto player betting on the future of India's electric vehicle market. One of the biggest players in this field in China, BYD, is planning to manufacture both electric cars and electric buses in India, not only for the Indian market, but as a hub to export to South and Southeast Asia. BYD has adopted a different approach from Beiqi Foton, which decided to go alone in Maharashtra, with little success. BYD is following the JV route, and is partnering with the Hyderabad-based Gold Stone Group, which already sells electric buses in India, including six electric buses that are now being used in Mumbai by the Brihanmumbai Municipal Corporation (BMC). The next step is manufacturing in India, for which BYD is also partnering with Goldstone to invest US$28.8 million (Rs. 200 crores) in a greenfield facility.[40]

Consumer goods

Arguably the most impactful development in China's economic relations with India over the past five years is the emergence of India as the biggest overseas market for Chinese mobile phone companies. Even more than the influx of cheap Chinese handsets in the 2000s, the recent dominance of Chinese smartphone manufacturers has been a game-changer in how Chinese tech companies view India. Among the top five best-selling smartphone brands in India, four are Chinese — OPPO, Vivo, Xiaomi, and Huawei — with Samsung from South Korea, the lone non-Chinese presence. The combined sales of Chinese mobile phone companies in India crossed US$7.2 billion (Rs. 50,000 crores) in 2017-2018. Xiaomi alone has crossed US$2 billion in total sales in India, while Vivo generated US$1.6 billion in revenue in 2018, doubling from the previous year.[41]

While Huawei was the earliest entrant, Xiaomi was, in some sense, the trailblazer in the smartphone business, entering India in 2014 with high-profile launches of tailor-made smartphones for the Indian market. The company initially eschewed investing in a retail presence, instead of selling exclusively online through tie-ups with prominent e-commerce platforms. Once it succeeded in establishing a dominant market presence, the company began opening retail stores and also entered into partnerships with Taiwan electronics manufacturing powerhouse Foxconn and Hipad to initially assemble, and subsequently manufacture, handsets in India. Xiaomi's strategy has emphasised building a long-term presence in India. In 2019, Xiaomi announced its seventh factory in India in partnership with Flex in Chennai, following its facilities in Sriperumbudur near Chennai in Tamil Nadu, Sri City in Andhra Pradesh and Noida in Uttar Pradesh. In addition, the company announced a US$504 million (Rs. 3,500 crores) investment in India in January and March 2019, from Xiaomi Singapore, to fund its India plans which include opening 5,000 retail stores by 2020.[42]

The other big success story is the entry of BBK Electronics, which makes phones under the OPPO, Vivo and OnePlus brands. All three brands have been marketed separately in India, indeed as competitors, in an aggressive strategy to capture market share. OPPO, like Xiaomi, entered the India market in 2014, with a three-year plan to invest US$216 million, including in an assembly plant in Noida. This was followed by a US$350 million investment in another greenfield facility, also in Greater Noida, on 110 acres after the first unit reached full capacity ahead of schedule. The company has planned a US$504 million (Rs. 3,500 crores)

[40] Malyaban Ghosh, "Chinese electric bus makers look to set up operations in India", January 25, 2018 https://www.livemint.com/Industry/XdiXNa38En3IGj7DS5jxFN/Chinese-electric-bus-makers-look-to-set-up-operations-in-Ind.html

[41] Writankar Mukherjee, "Indians Spent Over Rs 50,000 crore on Chinese Phones in Financial Year 2018", October 29, 2018 https://economictimes.indiatimes.com/tech/hardware/indians-spent-over-rs-50k-crore-on-chinese-phones-in-fy18/articleshow/66408152.cms

[42] Business Today, "Xiaomi to open 7th manufacturing facility in India", March, 2019 https://www.businesstoday.in/top-story/xiaomi-to-open-7th-manufacturing-plant-in-india-increases-production-capacity-by-50/story/329110.html

investment over the next five to ten years for this new greenfield Electronics Manufacturing Cluster (EMC).[43] Vivo has also announced a separate US$576 million (Rs. 4,000 crores) four-year investment plan for a second factory in Uttar Pradesh to supplement its existing US$43 million (Rs. 300 crores) unit.[44] Both companies also opened research and development centres in India. OPPO has established an R&D centre in Hyderabad — its seventh globally and third abroad, after Japan and the U.S. Both firms have, more than any other Chinese company, splashed the cash in an aggressive market expansion strategy. Both are in a league of their own — so much so that when OPPO made a massive US$155 million (Rs. 1,079 crores) offer to sponsor the Indian cricket team, the company it outbid was Vivo. Vivo, on the other hand, bid successfully to sponsor the other prized Indian cricket product, the Indian Premier League (IPL), for US$317 million (Rs. 2,199 crores).[45]

One of the earliest entrants among China's major mobile phone makers was the telecom giant Huawei, which entered India in 2000 as an exporter of telecom equipment. The company has subsequently made long-term investments to establish a presence in India, including a $170 million investment in an R&D centre in Bengaluru, its biggest outside China,[46] as well as, a US$19.6 million (Rs. 136 crores) global service centre in the same city.[47] In Delhi, the firm is investing US$23 million in an OpenLab project,[48] while in 2018 Huawei unveiled a three-year plan to invest US$100 million in manufacturing facilities in India and open more than 1,000 retail stores.[49]

In the consumer electronics space, Haier, which manufactures refrigerators in India since 2007, took a major step in 2017 to expand its operations by pumping US$86.5 million (Rs. 600 crores) into its Ranjangaon facility near Pune.[50] In 2018 a second factory with a US$442 million (Rs. 3,069 crores) investment plan, was announced in Greater Noida, Uttar Pradesh, which is emerging as a favoured manufacturing hub for Chinese firms.[51] Midea, a domestic competitor of Haier's, has invested US$115 million (Rs. 800 crores) in its first manufacturing facility in India to come up in Pune — another popular emerging Chinese manufacturing cluster that took off with the Sany investment. Midea's planned facility will have the capacity to manufacture half a million refrigerators and 600,000 washing machines, in addition to an R&D centre.[52]

[43] Tina Gurnaney, "Oppo to set up manufacturing cluster in Greater Noida", Economic Times, January 25, 2019 https://telecom.economictimes.indiatimes.com/news/oppo-to-set-up-manufacturing-cluster-in-greater-noida-to-invest-rs-3500-crore/67687103

[44] Business Today, "Chinese smartphone maker Vivo's new Greater Noida Plant to generate over 5000 jobs", November 30, 2018 https://www.businesstoday.in/current/corporate/make-in-india-vivo-new-plant-in-greater-noida-to-generate-over-5000-jobs/story/296139.html

[45] Press Trust of India, "Vivo Retains IPL Sponsorship for Five Years", June 27, 2017 https://timesofindia.indiatimes.com/sports/cricket/ipl/top-stories/vivo-retains-ipl-title-sponsorship-for-five-years/articleshow/59334413.cms

[46] Nivedita Bhattacharjee, "China's Huawei Makes $170 million Make in India Investment", Reuters, November 5, 2015 https://in.reuters.com/article/huawei-tech-india-investment/chinas-huawei-makes-170-million-make-in-india-investment-idINKBN0L91JR20150205

[47] Press Trust of India, "Huawei Sets Up Biggest Service Centre in City", August 25, 2016 https://www.livemint.com/Companies/0GtTdwvYeWWq6Tjpmo3TDI/Huawei-sets-up-its-biggest-global-service-centre-in-Bengalur.html

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[49] Wang Cong, "Huawei India Plans to Address Local Concerns", Global Times, October 21, 2018 http://www.globaltimes.cn/content/1123851.shtml

[50] "Haier Expands India Facility With Rs 600 crore investment", Financial Express, November 17, 2017 https://www.financialexpress.com/industry/haier-expands-india-facility-with-rs-600-cr-investment/936036/

[51] Xinhua, "Haier Holds Groundbreaking Ceremony For Second Park in India", March 29, 2019 http://www.xinhuanet.com/english/2019-03/29/c_137934333.htm

[52] Press Trust of India, "China's Midea Group to Invest Rs 800 crore in Pune Plant", July 1, 2017 https://www.hindustantimes.com/business-news/china-s-midea-group-to-invest-rs-800-crore-for-pune-plant-for-making-appliances/story-v1h1JegxLjmodrft2K5zDP.html

Real estate

The newest emerging interest from China is in India's real estate sector, which has coincided with curbs and a slowdown in China's domestic real estate market. Two big-ticket announcements were made in 2016 by two of China's real estate powerhouses — the Wanda group and China Fortune Land Development (CFLD) — to develop industrial parks in Haryana, and replicate the big-scale Chinese model of developing sprawling real estate infrastructure for commercial and residential housing. Wanda announced a US$10 billion investment, while CFLD announced plans to build a US$5 billion township across 1,500 acres. Both deals, however, ran into obstacles and failed to take off, one over differences with the state government — Haryana sought a 26% stake, which Wanda felt would cripple its managing of the park — and the other over land acquisition, underlining the limitations of attempting to export the Chinese real estate model to a vastly different political environment.[53] CFLD has also entered into talks with the City and Industrial Development Corporation (CIDCO) of Maharashtra for integrated township projects in Navi Mumbai.

The Wanda and CFLD problems in Haryana have not stopped other players, who adopted a more considered approach by taking on local partners to navigate the complexities of a different real estate ecosystem. Country Garden, a major player in residential housing in China, has been the most aggressive until date, opening regional offices, entering into partnerships with local players and hiring large teams of several hundred employees including lawyers and architects. In Mumbai, the firm was in advanced talks with the Wadhwa Group to buy a controlling stake in a Rs. 1,100 crores township project in Panvel, Navi Mumbai. Both were close to a deal and even signed some agreements with local developers, but the agreement appears to have stalled, with real estate analysts in India viewing capital curbs in China as a major reason for the waning of interest after initially ambitious plans.

While plans may have been scaled down, the slowdown and curbs in the real estate sector in China has seen major players look at India as a key overseas market. The Fosun Group is reportedly close to acquiring a 51% stake in a Bengaluru-based real estate firm for US$115 million (Rs. 800 crores),[54] while CNTC, a leading conglomerate, has signed a joint venture with Golden Gate Properties for residential projects in Bengaluru, including the $US216 million (Rs. 1,500 crores) Presidential Tower and the US$144 million (Rs. 1,000 crores) Grand Tower residential projects in Yeshwantpur. Two other projects in Whitefield and Sarjapur are in the works under a US$1 billion two-year investment plan.[55] The China Construction Third Engineering Bureau (CCTEB), a subsidiary of the State-backed behemoth China state Construction Engineering Corporation, has entered into a partnership with Gurgaon-based Tulip Infratech for a US$288 million (Rs. 20,000 crores) three-year plan for housing, road, highway and other infrastructure projects.[56]

[53] Ruchika Chitravanshi, "Wanda's $10 billion Haryana project on the verge of being pulled out", Economic Times, April 28, 2017 https://economictimes.indiatimes.com/wealth/real-estate/equity-sharing-row-hits-dalian-wandas-haryana-project/articleshow/58407493.cms

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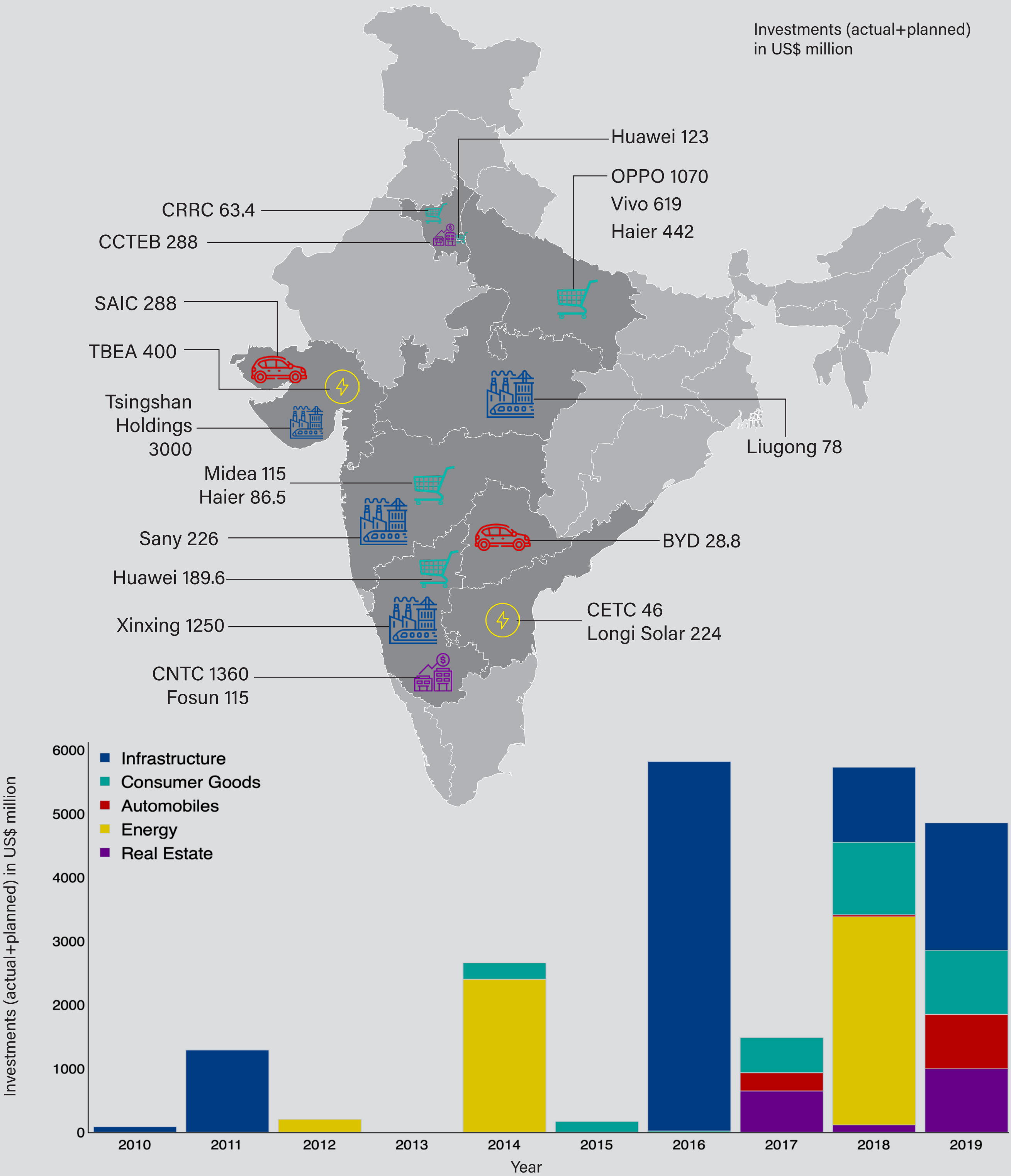
[56] Press Trust of India, "CCTEB partners Tulip to build infra projects", December, 2017 https://www.moneycontrol.com/news/business/chinas-ccteb-partners-tulip-to-build-infrastructure-projects-in-india-2455883.html

Mapping Chinese investments in India



Source: Data compiled by author from various sources.

Buying in India

While the post-2014 period has witnessed a jump in greenfield investments, the biggest change in this period has been the inflow of Chinese funds for acquisitions in India. The single biggest deal in this space is the Fosun Group's US$1.09 billion acquisition of a 74% stake in Gland Pharma in 2017. Besides the Fosun deal, most of the investments have largely come in the technology sector. In 2017 alone, when investments in this space peaked, startups in the e-commerce and fin-tech sectors attracted US$7 billion in funding in total, both from home and overseas. In this period, e-commerce startups were the biggest destination, with US$3 billion in funding, followed by transport (US$1.7 billion), fin-tech (US$750 million) and travel (US$450 million). From the reported deals, the three single biggest foreign investors in this space during this period were Japan's SoftBank, China's Alibaba, and China's Tencent-invested Tencent Sequoia Capital.[57]

Estimating the actual investment flows from China and Chinese companies into the technology sector is complicated because many investments are routed through Hong Kong, Singapore or other third-party countries. According to Indian official figures, Mauritius and Singapore are the two biggest sources of foreign direct investment. Moreover, neither the Indian government nor China's MOFCOM have complete records of deals in this space. To further complicate the picture in India, there are different routes available for foreign direct investments — through the automatic route or the government route, when approval is needed — as a result of which different ministries have incomplete country-wise statistics. Because of this, even the Government of India does not have a complete account of the amount of Chinese investment in Indian companies. Since it is not possible to list every investment including smaller Chinese companies or VCs, this section focuses on investments by prominent Chinese companies that have a greater ability to influence domestic policy and decisionmaking.

In the early 2000s, the "Going Out" policy established SOEs as major players in China's interests abroad, and as a consequence, a newly influential voice and interest group in Chinese foreign policy. If the first "Going Out" strategy was led by SOEs and focused on acquiring strategic resources, the current emphasis, outlined as part of the wider "Made in China 2025" plan, is on acquiring technology. While the state-led sector is again playing a leading role, particularly in investments and acquisitions in the high-tech manufacturing space, what is different in this round of "Going Out" is the high number of investments and acquisitions abroad by the private sector.

In the tech space, the "big three" BAT companies — Baidu, Alibaba, and Tencent — as well as the e-commerce giant JingDong or JD.com, have led the investment push in the U.S., where the volume of deals peaked in 2015, reaching almost US$10 billion. After China's e-commerce explosion that began in 2009, particularly led by Alibaba's Taobao and Tencent's WeChat, private companies amassed a war-chest that enabled their moves overseas. The lucrative domestic market reaching a saturation point was also a trigger. In the U.S., the focus has been on acquiring technology, with deals including well-known American brands such as social media company Snap Inc, ride-sharing service Lyft and virtual reality player Magic Leap. China's four largest internet companies — BAT and JD.com — have invested US$5.6 billion in 48 U.S. tech deals over the past two years.[58]

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[57] KPMG-Invest India-Venture Gurukool Report, "Startup ecosystem in India 2018", January 8, 2019 https://home.kpmg/in/en/home/insights/2019/01/startup-landscape-ecosystem-growing-mature.html

[58] Rebecca Fannin, "China's Tech Giants Are Pouring Billions Into US Startups", CNBC, March 8, 2017 https://www.cnbc.com/2017/03/08/chinas-tech-giants-are-pouring-billions-into-us-start-ups.html

A second objective of going abroad is to replicate their success in an overseas market. This is a big factor in why Chinese companies have gravitated towards India — they see it as a similar market to China in terms of its stage of development, e-commerce requirements and consumer behavior. Most importantly, India's market is seen as similar to China's in terms of size, viewed by many Chinese tech firms as the next big thing.[59]

Alibaba

In India, the trend of Chinese investments and acquisitions peaked in 2016 and 2017. Alibaba and Tencent have been the two biggest investors in India, together participating in funding rounds that exceed US$3 billion. Alibaba led the way with its entry and the US$680 million investment in 2015 with its affiliate Ant Financial for a 40% stake in One97 Communications, the parent company of the widely-used online wallet Paytm, which has more than 300 million users in India.[60] An additional US$177 million by Alibaba in 2017 further raised its stock in the company.[61]

The relationship between Paytm and Alibaba goes beyond just funding. To begin with, the Paytm app, from its design to its colours, is a mirror image of Alipay, Alibaba's widely used payments app in China. Among the agreements between the two companies is an exclusive partnership for Paytm to use AliCloud, Alibaba's cloud computing platform, and to integrate the payment instruments of Paytm and Alipay to allow Indian users to access Alipay's merchant base and Chinese users to pay Indian merchants via Alipay.[62] When questions were raised as to whether Alipay or Alibaba have access to Indian users' data, including in the Indian Parliament, Paytm clarified that all users' data is stored locally and no data is shared with any of its investors.[63]

Alibaba's other big plays in India include a US$500 million investment along with SoftBank and Foxconn in the e-commerce company Snapdeal[64] and the 2017 deal to become the biggest shareholder in BigBasket for US$146 million, which was followed by another US$50 million investment in the online grocer.[65] This was followed by a US$210 million investment in restaurant aggregator and food delivery app Zomato, and a reported US$35 million in the logistics firm Xpressbees.[66] More recently, Alibaba has been eyeing the entertainment, news, and media space, with Alibaba Pictures, a major investor in China, putting in US$17.3 million (Rs. 120 crores) in the online ticketing platform TicketNew. The group has also reportedly been considering a move for the news aggregator app Dailyhunt, which has already received funding from another major Chinese tech firm, ByteDance.[67]

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[59] Ananth Krishnan, "Chinese Bear on Indian Trail", India Today, June 16, 2016 https://www.indiatoday.in/magazine/neighbours/story/20160627-china-internet-giant-baidu-india-search-engine-829067-2016-06-16

[60] Gulveen Aulakh, "Alibaba, Ant Financial Invest $680 million in Paytm," Economic Times, September 30, 2015 https://economictimes.indiatimes.com/industry/banking/finance/banking/alibaba-ant-financial-invest-about-680-million-in-paytm-up-stake-to-40/articleshow/49148651.cms

[61] Simon Mundy, "Alibaba to invest $177 million in Paytm", Financial Times, March 3, 2017 https://www.ft.com/content/5cbb69bf-a2ae-3288-8500-27656a12067b

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[64] Reuters, "Alibaba, Foxconn invest $500 million in Snapdeal", August 19, 2015 https://www.scmp.com/tech/e-commerce/article/1850732/alibaba-foxconn-invest-us500m-snapdeal-it-targets-us22b-indian-e?_escaped_fragment_=&edition=hong-kong

[65] Reuters, "Alibaba deepens India push with BigBasket investment", February 2, 2018 https://www.reuters.com/article/us-alibaba-bigbasket/alibaba-deepens-india-push-with-bigbasket-investment-idUSKBN1FM1QW

[66] Reuters, "Alibaba unit invests $150 million in India's Zomato", March 1, 2018 https://www.reuters.com/article/us-zomato-funding-alibaba/alibaba-unit-invests-150-million-in-indias-zomato-idUSKCN1GD3WF

[67] K.T. Jagannathan, "Alibaba Pictures acquires majority stake in TicketNew", The Hindu, June 5, 2017 https://www.thehindu.com/business/alibaba-pictures-group-acquires-majority-stake-in-ticketnew/article18723841.ece

Tencent

If Alibaba was the trailblazer, it has to some degree been left behind by its competitor Tencent, which made a string of mega-investments in almost every sphere of the Indian tech space, from transport and food delivery to education and health. Tencent's first notable investment was US$400 million in the ride-hailing app Ola, which interestingly came at a time when both Ola in India and the Tencent-backed Didi Chuxing in China were in a heated competition with rival Uber.[68] This was followed by a US$700 million investment in the e-commerce platform Flipkart, then India's most valuable startup, in a deal that made Tencent the biggest Chinese investor in India.[69]

Tencent has acquired a diversified portfolio in India, targeting stakes in the biggest players in every vertical, from leading a US$175 million fund-raising round into Hike Messenger[70] to a US$90 million injection in the healthcare startup Practo, which was followed by another US$55 million round.[71] In the education space, it has invested US$40 million in the learning app Byju's, following up with US$11.4 million in a subsequent funding round.[72] Tencent made an entry into the food delivery space, joining its shareholder Naspers in a US$1 billion funding round for Swiggy, a rival of Alibaba-invested Zomato.[73] It has also invested US$100 million in Dream11 Fantasy, as part of reported plans to spend US$200 million in the online gaming space in India, and led a US$115 million funding round into the music streaming service, Gaana.[74] Tencent, like ByteDance, has also entered the news space, leading a US$50 million round into the aggregator app NewsDog.[75]

Xiaomi

The third biggest investor, but one with a different strategy, is the mobile phone company Xiaomi, whose total portfolio in India has crossed US$500 million according to the company, but spread in smaller investments across more than one hundred different startups. Xiaomi, along with its affiliated investment firm Shunwei Capital, have put in US$8.5 million in the social media app ShareChat, which was followed by another funding round where Shunwei put in US$32.5 million.[76] Shunwei's first major move into India was a US$25 million funding round in the entertainment space in Hungama entertainment. Several investments in finance and lending platforms have followed, including an US$8 million round in lending platform KrazyBee and a US$13.4

[68] Digbijay Mishra, "Ola Raises $400 million from Tencent", Times of India, October 10, 2017 https://timesofindia.indiatimes.com/business/india-business/ola-raises-400-million-from-chinas-tencent/articleshow/60978881.cms

[69] Mihir Dalal and Anirban Sen, "Tencent's $1 billion India bet", Mint, October 13, 2017 https://www.livemint.com/Companies/IQToylX-zcrYd4MgLBGlplK/Tencents-billiondollar-India-bet.html

[70] KJ Shashidhar, "Tencent, Foxconn invest $175 million in Hike Messenger", Medianama, August 16, 2016 https://www.medianama.com/2016/08/223-hike-messenger-tencent-foxconn-funding/

[71] Durba Ghosh, "Practo raises $55 million in series D led by Tencent", Tech in Asia, January 17, 2017 https://www.techinasia.com/practo-tencent-funding-series-d-2017

[72] Tech in Asia, "General Atlantic, Tencent pump $11.4 million into India's edu tech unicorn", March, 2019 https://www.techinasia.com/general-atlantic-tencent-pump-additional-114m-indias-edtech-unicorn

[73] Loni Prinsloo,"Tencent Joins Naspers in $1 billion funding for India's Swiggy", Bloomberg, December 20, 2018 https://www.bloomberg.com/news/articles/2018-12-20/tencent-joins-naspers-in-a-1-billion-funding-for-india-s-swiggy

[74] Payal Ganguly, "Tencent leads $100 million investment in fantasy sport platform", VC Circle, September 6, 2018 https://www.vccircle.com/tencent-leads-100-mn-investment-in-fantasy-sport-platform-dream11/

[75] Jon Russell, "Tencent leads $50 million investment in NewsDog", Tech Crunch, May 22, 2018 https://techcrunch.com/2018/05/22/newsdog-tencent-50-million/

[76] VC Circle, "Shunwei leads new funding round", September 19, 2018 https://www.vccircle.com/shunwei-leads-new-funding-round-in-social-networking-platform-sharechat/

million round in ZestMoney.[77] Other investments include US$3 million in a used car seller app, US$1.5 million in the Bengaluru-based Mech Mocha Game Studios, US$1 million in another Bengaluru startup, the video app Clip App, and leading a US$4.3 million funding round for self-publishing platform Pratilipi.[78] Shunwei capital also led a US$5 million funding round for vernacular knowledge-sharing app Vokal, a US$5 million investment in medical startup myUpchar, and a US$50 million round for e-commerce platform Meesho.[79]

Another new trend is Chinese interest in the media space. While there are limits on foreign ownership of print and television media, this is not the case for news apps, which have become a source of interest for Chinese investors. Tencent, as we have seen, is an investor in NewsDog, but the company making the biggest waves is ByteDance, which is behind both the most popular news aggregator in China, Jinri Toutiao, and the most popular video-sharing app, Douyin. The company entered the news aggregator space in India with a US$25 million investment in Dailyhunt, a news aggregator available in 17 languages.[80] But most stunning has been the success of Douyin's English-version, TikTok, which as of 2019, grew to over 300 million users in India.[81] The success of TikTok has been the clearest example of how Chinese apps have found a major market in India. Another is Alibaba-owned UC Browser, which is the most widely used mobile browser in India, and has also entered the news aggregation space with its UC News offering. The success of Chinese apps in India was so striking in 2018 that 44 of the 100 most downloaded apps in India that year were apps made by Chinese companies.[82]

[77] Pratik Bhakta, "ZestMoney raises $13.4 million in round led by Xiaomi", Economic Times, August 27, 2018 https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/zestmoney-raises-13-4-million-in-a-round-led-by-xiaomi/articleshow/65556607.cms
[78] The Hindu, "China's Shunwei invests in Indian start-up Truebil", February 16, 2017 https://www.thehindu.com/business/Economy/Chinas-Shunwei-invests-in-Indian-start-up-Truebil/article17313991.ece
[79] Bhumika Khatri, "Meesho raises $50 million", Inc 42, November 6, 2018 https://inc42.com/buzz/meesho-raises-50-mn-shunwei-capital-kabir-misra-join-as-new-investors/
[80] Malavika Velayanikal, "Dailyhunt raises $25 million from Bytedance of China", Tech in Asia, October 15, 2016 https://www.techinasia.com/dailyhunt-raises-25-million-funding-from-bytedance-of-china
[81] Shelley Singh and Venkat Ananth, "Tiktok's relentless growth in India is hitting Facebook", Economic Times, May 21, 2019 https://economictimes.indiatimes.com/small-biz/startups/features/bytedance-bets-big-on-short-videos-to-engage-indian-market-takes-on-facebook/articleshow/69422493.cms
[82] Amrita Nair-Ghaswalla, "Of India's top 100 apps,, 44 are Chinese", The Hindu Business Line, April 16, 2019 https://www.thehindubusinessline.com/info-tech/of-indias-top-100-apps-44-are-chinese/article26857166.ece

The implications of rising Chinese investment for India

The post-2014 entry of the Chinese private sector at a large scale and the subsequent influx of Chinese capital has changed the nature of China Inc's engagement with India. What is striking about this change—which raised the stakes of Chinese companies in the Indian market—is that it largely happened without the involvement of both governments, and was led by the private sector in both countries. This has been especially evident in the spate of acquisitions in the tech sector.

This new engagement presents both opportunities and challenges for India in pursuing its strategic and commercial goals with regard to China. While there are benefits in pursuing investment from China, the challenges need to be considered as well. So far, the focus of capital-hungry Indian startups and a foreign investment-seeking government has understandably been on attracting investment as well as know-how from China in helping them scale up. This has, however, arguably led to inadequate attention on the specific challenges of regulating investments from China.

Chinese companies have escaped the kind of scrutiny in India that their investments have attracted in the West, despite several high-profile investments and acquisitions. Besides the current emphasis on investments, another likely reason is the assumption that investments from the Chinese private sector are entirely different from state-led investments.

As we have established, the separation between the Chinese state and private business is blurry. Within China, the Chinese private sector, and particularly tech firms, work closely with the government and the Communist Party in pursuing many of its goals at home. This is especially true of the technology sector, which is widely seen as playing a key role in the party's enforcement of digital authoritarianism at home, from surveillance to censorship.

In the West, there has been considerable debate on whether a clear distinction should be made between Chinese SOEs and the private sector. The private sector's relationship is now under the lens in many Western countries, particularly over the decision to allow Huawei, a private sector giant with close state ties, to participate in 5G networks. As of September 2019, the U.S., Australia, and Japan were among countries that have blocked Huawei from their 5G plans, while India has not taken a final call, although allowing the Chinese company to participate in initial 5G trials. Huawei has already supplied equipment to build India's 3G and 4G networks, but the security implications of 5G have given the Indian government some pause for thought, according to news reports.[83]

For India, the emergence of the Chinese private sector as a key stakeholder presents its own unique opportunities and challenges. The influx of Chinese capital has certainly been beneficial to both countries, and to the broader relationship as well, emerging as a potential factor of stability. For Indian tech companies, the infusion of capital has allowed them to scale up, as well as, benefit from the experience and technological know-how of Chinese companies that have achieved a bigger scale and success in their own home market in similar verticals.

[83] Pankaj Doval, "5G Panel Head Wants Chinese Vendors Excluded From 5G Trials," Times of India, July 2, 2019 https://timesofindia.indiatimes.com/business/india-business/5g-panel-head-wants-chinese-vendors-excluded-from-trials/articleshow/70032601.cms

The investments and acquisitions by the Chinese private sector in India have largely been driven by market compulsions. Moreover, Chinese companies are unlikely to take any action that adversely impacts either their market share or the hundreds of millions that comprise their user base. At the same time, users of apps need to be made aware of the context and implications of these acquisitions, which has not been the case so far. From payment apps that record every user's private transactions to the country's most widely used mobile browser, safeguarding access to private data that could be potentially sensitive is another challenge that has not received adequate attention.

Neither has the expanding footprint of Chinese stakes in new areas, such as news and entertainment apps which have recently become a source of interest for Chinese investors. For example, ByteDance, which is behind both the most popular news aggregator in China, Jinri Toutiao, and the most popular video-sharing app, Douyin, has a $25 million investment in Indian news aggregator Dailyhunt. In China, the company, like others in the space, plays a key role in ensuring the party's censorship mandates are followed strictly. Regulators will need to consider the implications of having India's most valuable startups — in potentially sensitive newly-emerging sectors such as fin-tech services — ceding controlling stakes to Chinese firms, particularly in a fast-changing industry where notions of what may be sensitive to state interests changes rapidly.

Recommendations for India's trade and investment strategy with China

1. Engaging new actors

As the nature of India's trade and investment relations with China evolves, the method and patterns of engagement will have to change as well. An immediate challenge is engaging the new actors with stakes in the relationship. India and China have established a wide range of at least 30 dialogue mechanisms, covering engagement between various government ministries. While the MEA in India and the MFA in China are the most important points of contact, a number of new dialogues have been set up in recent years to deal with the growing commercial engagement. These include a Joint Group on Economic Relations, Science and Technology (JEG) that was set up in 1988. It has, however, only met 11 times since.

The JEG has also set up three working groups on Economic and Trade Planning Cooperation (ETPC), Trade Statistical Analysis (TSA) and Service Trade Promotion. In addition, a Strategic Economic Dialogue (SED) was established in 2010; however, only five meetings have been held as of 2018. The SED has six working groups: on infrastructure, environment, energy, technology, policy coordination, and pharmaceuticals. The SED is led by the Vice Chairman of the NITI Aayog and the Chairman of China's National Development and Reform Commission (NDRC), while the NITI Aayog also holds a dialogue with the Development Research Centre of China (DRC), an official think tank under the State Council, on economic policy coordination. Both sides also held a joint financial dialogue, and several other JWGs on Collaboration in Skill Development and Vocational Education, Information and Communication Technology & High-Technology, Industrial Park Cooperation, on a Regional Trading Agreement (RTA), Agriculture, and energy cooperation.[84] Despite the impressive list, the outcomes have been modest for several reasons. For one, the JEGs tend to meet infrequently. Secondly, there is no rigorous system of following up on agreements.

2. State-to-province engagement

Moreover, one obvious gap is in engaging two of the most influential new actors in the commercial relationship: Chinese provinces and the private sector, both of which do not fall into the scope of existing dialogue mechanisms. A decision to set up a state leaders' forum was announced when prime minister Narendra Modi visited China in 2015, but the only meeting of the forum was held during that visit. The MEA, however, has a separate programme with the Communist Party of China's International Liaison Department to bring over provincial leaders from China, particularly focusing on states with prominent business ties with India such as Guangdong, which has helped create one important — if underused — platform for engagement. Establishing relationships between Indian states and Chinese provinces is another untapped avenue of engagement. Most of the hurdles faced by Chinese investors are at the state level — as we saw in the Wanda and Beiqi Foton investments — where they are often surprised to find that assurances from the centre do not carry as much weight as they do in their own country. Visits by Indian chief ministers to China, which require MEA facilitation, are infrequent. Giving states more autonomy to pursue their engagement with Chinese provinces could help address this gap.

[84] Embassy of India, Beijing https://www.eoibeijing.gov.in/political-relation.php

3. Outreach to the private sector

There is a lack of a reliable platform to engage the Chinese private sector. Unlike most countries, India does not have a chamber of commerce in Beijing. The only industry body present in China is a Confederation of Indian Industry (CII) branch in Shanghai, which is staffed with only one permanent Indian representative. Its primary concern is dealing with the issues faced by Indian companies in China. Hence, most outreach to the Chinese private sector, as well as, Indian companies based in China is left to the commercial wing of the Indian embassy in Beijing, besides consulates in Shanghai and Guangzhou. The wing, which is staffed by only three officials, lacks the resources to facilitate both potential Chinese investors in India or Indian companies based in China. To fill this void, DIPP has set up a dedicated China desk in Delhi to handle issues faced by Chinese investors, such as queries over regulation and investment.

4. Rethinking trade strategy

Perhaps the single biggest obstacle from New Delhi's point-of-view in pursuing its goals with China is a lack of a coherent approach from the different actors involved in engaging China on trade and investment. The absence of a coherent strategy has led to a piecemeal approach where different actors pursue different interests. If New Delhi wants to better leverage its market in pursuing its goals with China, both on the investment and market access fronts, this will need to change.

Chinese investment also has the potential to rebalance an extremely lopsided trading relationship, which has been driven by Indian dependence on Chinese goods in various sectors. In addition to their stakes in Indian companies, India has also emerged among the key overseas markets for several Chinese companies with hundreds of millions of dollars in revenues at stake. Whether this can be better leveraged by India's trade strategy, which has so far failed to balance the trading relationship or secure market access for Indian firms in China, needs to be explored.

5. A transparent and effective regulatory regime

Regulation should certainly not single out Chinese investment, which would be self-defeating as well as derail what has undoubtedly been a welcome trend for the relationship. Neither should alarmism on the security concerns dictate policy or overstate the security risks. At the same time, this flush of investment from China has only served to underline the need for a transparent, credible, and predictable regulatory framework — aimed at all overseas investment — that strikes a better balance between creating a friendly, open and predictable investment environment on one hand, and safeguarding longer-term considerations of security and privacy on the other. Doing so would better harness the benefits of greater Chinese investment into India, which have already given some of China's biggest and most influential companies a long-term stake in the success of India's economy a welcome shift. After all, the billion-dollar-plus portfolios acquired by companies such as Alibaba and Tencent are not only long-term bets on the Indian economy, but also the biggest bets that have been placed yet on the future of India's relations with China.

About the author

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Krishnan has closely tracked Sino-Indian relations for a decade, from the boundary question and the rapidly expanding trading relationship to the long history of cultural engagement between the neighbours.

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