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Is India Failing To Leverage China Plus One Strategy?

Despite appropriate resources, India has not been able to utilise China Plus One via which several international companies moved manufacturing and production away from China

In a major blow to Prime Minister Narendra Modi-led central government, a parliamentary panel on commerce in its report in March 2023 stated that India has not been able to establish a positive impression among businesses that moved away from China.

Despite appropriate resources, the country has not been able to utilise China Plus One via which several international companies moved manufacturing and production away from Xi Jinping's China, the report tabled in the Rajya Sabha stated.

RP Gupta, an economist and author, stated that India has failed to derive significant benefits from the China Plus One strategy of global companies. He added, "I firmly believe that India has huge latent potential, surpassing all nations, including China."

Gupta added that India must acknowledge that gross domestic product (GDP) growth comes from productive investment and that it needs a pro-investment climate and faith in institutions that are independent, transparent and judicious.

Interestingly, while addressing the Bengaluru Tech Summit in November 2022, Minister of State for Electronics and IT Rajeev Chandrasekhar said that the China Plus One strategy puts India in a position of advantage.

"People around the world do not want to depend on China as the only source. China Plus One diversification is underway. India is well positioned, given the last five to six years of efforts made by the country in positioning itself as a significant player in these global value chains (GVCs)," Chandrasekhar added.

However, the parliamentary panel report mentioned that Southeast Asian economies like Thailand, Vietnam, Malaysia and Cambodia have become bigger beneficiaries of the strategy.

"Countries like Vietnam, Thailand, Cambodia and Malaysia are destinations that provide investors with lower labour costs, free trade access, and a growing market. These countries are also providing upstream and downstream linkages similar to China which is also a reason why investors are targeting these countries," said Saket Dalmia, President, PHD Chamber of Commerce and Industry (PHDCCI).

Also, the factors that provide extra advantages to these nations are lower corporate income tax, cheap labour, proactiveness in signing free trade agreements (FTAs), a conducive business environment, etc.

The standard corporate income tax (CIT) rate in Vietnam, Thailand and Cambodia is 20 per cent, it is 24 per cent in Malaysia, 22 per cent in Indonesia, 30 per cent in the Philippines and 25 to 30 per cent in India.

"While several factors are backing these countries, one of the major aspects that are favouring Vietnam as an alternate investment location is its geographic proximity to China and its long coastline, which makes it especially appropriate for China-plus-one structure as well as any business that requires Chinese imports. Furthermore, a low taxation regime and thrust towards developing a targeted workforce are also working in their favour," said Arun Singh, Global Chief Economist, Dun & Bradstreet.

Experts also said that Vietnam and Malaysia have outlined targeted approaches to develop a high-skilled workforce to compete with other countries.

Singh also mentioned that Thailand, Vietnam, Malaysia, Cambodia and China along with ten other Asian countries will benefit from unified rules of origin as they have become members of the recently concluded regional comprehensive economic partnership (RCEP), "an advantage that will evade India as it has decided to withdraw from the agreement."

In the last few years, these countries became members of one or other mega trade agreements such as RCEP and the comprehensive and progressive agreement for trans-pacific partnership (CPTPP).

Vietnam, Thailand, Cambodia and Malaysia are members of RCEP which helps these economies integrate into the supply chains of advanced manufacturing countries such as China, South Korea and Japan. Similarly, Malaysia and Vietnam became members of the CPTPP which helps these countries integrate into the supply chains of Mexico, Canada, Japan and other member countries.

"By becoming part of these mega trade agreements, these countries became attractive destinations for foreign investors as these countries can serve as a gateway to enter the markets of the member countries of these agreements," Dalmia explained.

Secondly, in order to attract foreign investments, Cambodia introduced a new law on investment that offers incentives, protection and a less complex registration procedure. In the case of Malaysia, the country already had a strong presence in the semiconductor industry (unlike India). In the last two years, it attracted more investment from semiconductor manufacturers from China, USA and Austria.

"India is yet to make a significant presence in the global semiconductor manufacturing sector, which is seeing a lot of cross-border investment after the semiconductor shortage episode in the aftermath of the pandemic," PHDCCI President mentioned.

What is India doing?

Experts told BW Businessworld that India has taken numerous measures to attract businesses that are now strategising upon China plus one policy after the Covid-19 pandemic. The rollout of the production linked incentive (PLI) scheme in key fourteen sectors, which include auto components, electronics, pharmaceuticals etc., form an essential part of the Indian government's strategy to attract foreign companies and capital.

"India is leapfrogging in the international trade arena by proactively developing its capabilities to capture the international market space. It is able to constantly register higher growth in foreign direct investment (FDI) inflows and is rapidly emerging as a preferred country for foreign investments in the manufacturing sector," said Dalmia.

Along with the FDI inflow, India has also been registering growth in its exports across several industries. In 2015, India was the tenth largest recipient of FDI attracting 2.5 per cent of global FDI and by 2021, we became the eighth largest recipient with our share marginally rising to 2.8 per cent.

"In recent years, Cambodia and Vietnam are capturing global FDI at a faster clip and hence India has reduced its quantum of lead in attracting FDI. In 2015, India attracted 23 times more FDI than Cambodia and this lead has declined to 13 times by 2021. Similarly, India attracted four times more FDI than Vietnam in 2015, which declined to three times by 2021," said Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai.

Despite the expectations of a slowdown in external demand, India was able to achieve its ambitious target of overall exports (merchandise and services) of USD 770 billion in FY 2022-23, registering a growth of 13.84 per cent.

"Some of the rising areas in which India has registered growth in its exports are electronics, pharmaceuticals, automobiles and engineering goods to name a few. India has more than managed to utilise its options to capture international market space amidst the China Plus One strategy of companies," added Dalmia.

What can India do?

While India has taken a host of measures to improve its business environment including PLI schemes to promote domestic production and attract foreign investment in 14 sectors, countries such as Thailand and Malaysia have launched targeted policies to attract businesses looking at relocating their manufacturing base.

The government has decriminalised over 3,500 provisions. Apart from that Jan Vishwas Bill which amends 42 central acts has been introduced to boost trust-based governance. India has already signed 13 FTAs and six preferential trade agreements (PTAs) and is negotiating with Canada, the United Kingdom and the European Union.

"Besides entering into free trade agreements that India has been aggressively pursuing over the past few years with several countries, the focus on digitisation across the board, green economy, data infrastructure along with thrust for tech transformation and mega infrastructure projects will be growth pivots for India opening plethora of opportunities establishing India as a preferred country for foreign investments," said Dun & Bradstreet's Singh.

The Parliament committee also recommended the rationalisation of direct taxes and indirect taxes in association with global rules and laws to enhance the competitiveness of Indian industries in the international markets. It also urged the Centre to enter FTAs or PTAs with nations keen to invest in India under the China Plus One strategy.

Kalantri stated that the immediate priority for India is to expedite its ongoing negotiation on a trade agreement with the European Union, which is our second largest export destination and find a mutually agreeable solution to the carbon border tax. "The proposed carbon border tax may increase the compliance burden and eventually the cost of our exports of fertiliser, metals and other manufactured goods to the EU in the coming years," added Kalantri.

During 2017-22, India's GDP growth was barely 3.9 per cent on a compound annual growth rate (CAGR) basis due to falling private investment rate, Covid-19 etc

"Now, both governments at the Centre and states are organising investor's meet and also reaching to global investors and offering incentives. India has already slashed corporate tax rates and introduced attractive PLI schemes. The competitive tax rate is okay but fiscal incentives can't be sustained long-term," Gupta explained.

Meanwhile, as a long-term policy, India must improve its investment climate through an easement of business and taxation laws for existing business firms. Those will become true ambassadors for attracting new investors from the domestic or global arena.