India Rethinks China Blockade to Boost Tech Manufacturing

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China Blockade Latest News

- India is reconsidering its restrictive stance on Chinese investments in electronics manufacturing to boost domestic production and strengthen global supply chain integration.

Introduction

- Nearly five years after adopting a restrictive stance toward Chinese investments in the wake of the 2020 Galwan Valley clashes, India is signalling a calibrated shift in its **'China-out' electronics strategy**.
- In light of its ambitious goals to become a global electronics manufacturing hub, India is **re-evaluating Foreign Direct Investment (FDI) rules and barriers** previously imposed on China-based companies.
- The move comes amid changing global trade dynamics, evolving geopolitical realities, and India's realization that Chinese firms remain essential in upstream components critical for high-tech manufacturing.

Background of the Blockade

- In April 2020, India issued **Press Note 3**, mandating government approval for all FDI inflows from countries sharing a land border with India, effectively restricting Chinese investments.
- The policy was designed to **prevent opportunistic takeovers** of Indian firms during the **COVID-19 pandemic** and reflected a broader pushback following border tensions.
- This led to the exclusion of Chinese entities from key sectors such as telecommunications, electronic hardware, and infrastructure, even as India's electronics assembly sector began expanding rapidly under the **Production Linked Incentive (PLI) schemes**.

Emerging Signs of Policy Recalibration

- Amid rising manufacturing needs and limited domestic capacity for advanced components, India has begun showing **pragmatic openness** to Chinese participation in select areas.
- **Key Developments:**
    - **Dixon Technologies**, a major Indian contract manufacturer, received approval from the Ministry of Electronics and IT to form a **joint venture with China-based Longcheer**. The JV will produce smartphones, smartwatches, automotive electronics, and AI-powered PCs.
    - **NITI Aayog** has recommended easing FDI norms for Chinese companies to **attract investment and enhance exports**.
    - The **Economic Survey 2023–24** also hinted at the need to revisit restrictions on Chinese firms, acknowledging their integral role in the electronics supply chain.

Structural Dependencies on Chinese Components

- Despite the policy blockade, India has continued to **import large volumes of components** from China:
    - In FY2023-24, India imported over **$12 billion worth of electronic parts from China** and another **$6 billion from Hong Kong**.
    - Together, these regions accounted for over **50% of all component imports**, far exceeding inflows from South Korea, Taiwan, Japan, or ASEAN.
- This underscores a reality: while India has kept **finished goods like smartphones** from Chinese firms out of its domestic market, it **remains reliant on upstream inputs** from them to fuel its fast-growing assembly operations.

Policy Drivers Behind the Rethink

- India's evolving stance is informed by multiple considerations:
- **Manufacturing Ambitions**:
    - The government aims to make India a global electronics manufacturing hub. The Rs. 23,000 crore scheme for **electronic components manufacturing** envisages foreign collaboration, where **Chinese expertise remains unparalleled**.
- **Global Supply Chain Realignment**:

    - The post-pandemic world, U.S.-China trade tensions, and **“China+1” strategies** have opened opportunities for India to step in as an alternative hub.
        - The China+1 strategy is a business tactic where companies diversify their production and supply chains away from China.
    - But that requires deeper integration into global supply chains, where Chinese firms are major stakeholders.
- **Geopolitical Pragmatism**:
    - India has resumed **issuance of tourist visas** to Chinese nationals and facilitated diplomatic visits, including External Affairs Minister S. Jaishankar’s trip to China, where he stressed that *“**competition should not become a conflict**.”*

Challenges and Repercussions

- Even as India contemplates easing restrictions:
    - **China has retaliated** by pulling back workers and making it harder for Indian firms to import capital goods.
    - There have been **blockades on rare earth metals and magnets**, key to manufacturing electronics, which India has struggled to circumvent.
    - Chinese companies themselves face **compliance bottlenecks**, procedural delays, and security-related distrust in India.
- The challenge lies in striking a balance between **strategic autonomy** and **manufacturing dependency**.

Source: IE
