

China's WTO Complaint Against India's PLI Scheme - Explained

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PLI Scheme Latest News

- China has filed a formal complaint against India at the **World Trade Organisation (WTO)**, alleging that India's **Production-Linked Incentive (PLI) schemes** for batteries, automobiles, and electric vehicles violate global trade rules by favouring domestic products.

China's WTO Complaint Against India's PLI Scheme

- China has formally filed a complaint with the **World Trade Organisation (WTO)** against India, alleging that several of India's **Production-Linked Incentive (PLI) schemes** violate global trade rules.
- Beijing claims that these schemes, aimed at promoting the manufacturing of **advanced chemistry cell (ACC) batteries, automobiles, and electric vehicles (EVs)**, provide subsidies contingent on the use of **domestic goods**, thereby discriminating against imported products, including those from China.

- This dispute marks one of the most significant trade confrontations between India and China within the WTO framework in recent years, highlighting the broader tension between **industrial policy ambitions and international trade rules**.

Understanding the PLI Scheme

- Launched in **2020**, India's **Production-Linked Incentive (PLI) scheme** is a flagship initiative designed to strengthen domestic manufacturing, attract global investment, and integrate India into **global value chains (GVCs)**.
- The scheme provides **financial incentives to companies based on incremental sales** of goods manufactured in India, aiming to make domestic industries globally competitive while fostering innovation and employment generation.
- The three PLI schemes challenged by China are:
 - **PLI for Advanced Chemistry Cell (ACC) Batteries:** Encourages giga-scale battery manufacturing for EVs and energy storage systems.
 - **PLI for the Automobile and Auto Components Sector:** Promotes the development of **Advanced Automotive Technology (AAT)** products, including EV components.
 - **PLI for the Electric Vehicle (EV) Ecosystem:** Aims to attract major global EV manufacturers and reduce import dependence.

China's Allegations Against India

- China's central argument rests on the claim that these PLIs amount to **prohibited subsidies** under the WTO's **Subsidies and Countervailing Measures (SCM) Agreement**.
- Beijing contends that:
 - The PLI schemes are **"Import Substitution (IS) subsidies"**, as they encourage companies to use **domestically produced goods** over imported ones.
 - For example, the **PLI for the auto sector** mandates a **50% Domestic Value Addition (DVA)** requirement, while the **ACC battery scheme** stipulates a **25% DVA threshold** for eligibility.
 - These conditions, China argues, **discriminate against foreign inputs** and are inconsistent with WTO rules that prohibit subsidies contingent upon the use of domestic over imported goods.
- China maintains that such subsidies distort market competition and hinder its exports to India, particularly in sectors like EV batteries and automotive components, where Chinese manufacturers are global leaders.

WTO Rules on Subsidies and Trade Measures

- Under WTO law, countries have the sovereign right to provide subsidies for industrial development. However, the **SCM Agreement** ensures that such subsidies do not cause **unfair trade distortions**.
- **Classification of Subsidies under WTO Law**
 - **Prohibited Subsidies:** Those contingent upon export performance or on the use of domestic goods over imported goods.
 - **Actionable Subsidies:** Permitted subsidies that may still be challenged if they cause adverse effects on other WTO members.

- **Non-Actionable Subsidies:** Subsidies for legitimate public objectives such as R&D or environmental protection (currently lapsed).
- Import substitution (IS) subsidies fall under the **prohibited category**, as outlined in **Article 3.1(b)** of the SCM Agreement.
- Additionally, India's PLI schemes may also be examined under:
 - **Article III.4 of GATT (National Treatment Principle):** Prohibits countries from treating imported goods less favourably than domestic goods.
 - **Article 2.1 of the Trade-Related Investment Measures (TRIMs) Agreement:** Prohibits investment measures that are inconsistent with national treatment obligations, such as local content requirements.
- However, experts point out that **India's PLI schemes link incentives to value addition**, not necessarily to the use of domestic goods.
- Value addition can occur through innovation, local assembly, or supply chain integration, making China's claims **legally complex and open to interpretation**.

India's Likely Defence

- **Non-Contingency on Local Content:** The **Domestic Value Addition (DVA)** benchmarks do not explicitly mandate the use of Indian goods; instead, they assess **value creation within India**, which can include imported components that undergo processing or transformation.
- **Developmental Objective:** The schemes are part of India's broader industrial and climate strategy, promoting green mobility, battery storage, and self-reliance — areas considered essential for sustainable growth.
- **Compliance with WTO Principles:** India may argue that the subsidies are **non-actionable**, as they promote innovation, environmental sustainability, and technology diffusion — consistent with the WTO's broader developmental objectives.

The WTO Dispute Process and Next Steps

- Under WTO rules, the first step in dispute resolution is **consultations** between the parties. India and China will attempt to resolve the issue through diplomatic discussions.
- If these consultations fail, the case will proceed to a **WTO dispute panel** for adjudication.
- However, the WTO's **Appellate Body**, the final authority for appeals, has been **non-functional since 2019** due to a U.S. veto on judge appointments.
- This means that even if the WTO panel issues a ruling against India and India appeals, the case will remain in **legal limbo**, allowing India to maintain its PLI policies until the appellate system is restored.

Broader Implications for India's Industrial Policy

- The dispute highlights a broader tension between **industrial policy and global trade rules**.
- As countries increasingly adopt state-led incentives to promote manufacturing, especially in sectors like semiconductors, EVs, and clean energy, disputes of this nature are likely to rise.

- India's PLIs are central to its **"Make in India" and "Atmanirbhar Bharat"** initiatives, aimed at reducing import dependence and building competitive domestic capabilities.
- Similar subsidy-driven strategies are being used by other economies, including the **U.S. (CHIPS and Science Act)** and the **EU Green Industrial Plan**.
- Therefore, this WTO case will test how global trade rules adapt to the **new age of industrial competitiveness and green technology promotion**.

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