International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:07, Issue:10 "October 2022"

INDIA-CHINA GALWAN VALLEY CLASH: IMPACT ON MANUFACTURING SECTOR

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DOI: 10.46609/IJSSER.2022.v07i10.023 URL: https://doi.org/10.46609/IJSSER.2022.v07i10.023

Received: 22 October 2022 / Accepted: 29 October 2022 / Published: 3 November 2022

ABSTRACT

India and China have both aspired to become World Powers since their independence. Despite the heat, both countries have come forward to strengthen their trade relations over a period of time. Contrary to that, the clash in Galwan Valley on June 15, 2020; reignited questions about this truce. In the year 2020-21, India's imports from China reached $97.5 Billion out of the $125.6 Billion two-way trade, which puts India in a vulnerable position if the situation intensifies in the future, as India is already dealing with deleterious effects of Covid-19. The objective of the study is to find out the likely impact of the same on the Indian Manufacturing Sector while keeping in mind the recovery from the recent pandemic & the present state of the Indian Economy. The research question seeks to answer: Will the tension between the countries emerge as an opportunity for India to finally become 'Atmanirbhar'? Will the Government campaigns (like Make in India & Start-up India), if enforced efficiently, help India in achieving a selling proposition competitive to China?

Keywords: India-China Trade War, India-China Clashes, Covid-19 pandemic, Manufacturing sector, Chinese Investors, Make in India

Introduction

Impact on the Indian Manufacturing Sector

Manufacturing sector is made up of both raw materials and intermediate goods, both for which India has been heavily dependent on China. Even though India and China have been engaged in bilateral trade, there is an exponential difference in their amount. As per The Hindu, the bilateral trade volume between India and China in the fiscal year 2021-22 was USD 125.6 billion, crossing USD 100 billion for the first time. Among them, India's imports from China were about

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USD 97.5 billion. The trade imbalance is on track for the current fiscal year with India's exports to China going down by 35% and imports going up by 34.5% from the same period in 2021.

In 2021, India's biggest imports were electrical and mechanical machinery, chemicals used in industrial production, active pharmaceutical ingredients(APIs), and auto components. During the pandemic, India has also imported a significant amount of medical equipment. China's overall export performance improved in June rising to 13.2%, and total commerce increased by 14.3%, compared to 9.5% in May and 0.1% in April, when major cities in the manufacturing heartland, including Shanghai, China's financial hub, were subject to strict lockdowns. Despite the recovery, India suffered greatly as a result of COVID-19.

Imports of APIs and drug intermediates from China during the first nine months of 2021-22 were worth Rs. 17,610 crores, accounting for about 66.48% of imports. Between 2020 and 2021, when China's pharmaceutical sector grew by almost 10%, imports of bulk pharmaceuticals from China also grew significantly in terms of actual numbers, while remaining the same proportion of total imports showed growth.

According to data released by the government in early April, India imported 3.02 lakh MT (Metric Tonne) of bulk drugs and drug intermediates worth Rs 26,490 crore during the nine months from April to December 2021. Imports worth 17,610 crores came from China. Total imports in 2020-2021 amounted to 3.90 million MT in bulk drugs and drug intermediates worth about Rs 28,529 crore. Of this, imports from China amounted to Rs 19,403 crore, accounting for 68.01%. Imports in 2019-20 amounted to 3.64 lakh MT, worth Rs 24,172, of which Rs 16,443 (68.02%) came from China.

Export and Import of Bulk Drugs and Drug Intermediates						
	Export		Import			
Year	Quantity (MT)	Value (In Rs Cr)	Quantity (MT)	Value (In Rs Cr)	Value of imports from China (In Rs Cr)	Percentage of imports from China (In terms of value)
2018-19	3,66,616	27,346	3,45,944	24,850	16,777	67.5%
2019-20	2,71,544	27,533	3,64,433	24,172	16,443	68.02%
2020-21	3,24,331	32,857	3,90,476	28,529	19,403	68.01%
2021-22 (April to December 2021)	3,35,627	24,107	3,02,745	26,490	17,610	66.48%

Source: DGCIS, Ministry of Commerce and Industry.

In Covid-19, both the imports of raw materials and intermediate goods substantially increased. For example, the oxygen therapy apparatus increased by more than fourfold and Intermediate

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products, particularly chemicals like acetic acid, increased by more than eightfold. One of the reasons for the rising imports is a recovery in domestic demand for finished products from China, followed by an industrial recovery. The need for several essential intermediate inputs has increased along with India's global export growth, while short-term interruptions elsewhere have increased short-term sourcing from China, such as in the case of previously sourced coking coal from Australia and Indonesia. India's record imports from China in 2021 have sparked a discussion over whether the economic relationship and a growing imbalance are sustainable, especially in light of the ongoing political deadlock over the unsolved situation along the Line of Actual Control (LAC).

As a result of the conflict in Galwan Valley in 2020, the Indian government has taken deliberate steps to mitigate its reliance on China. Additionally, India started its ambitious production-linked incentive (PLI) program in the industry to entice multinational corporations to produce there and establish India as a different supply chain destination. However, it seems unlikely that the industry's reliance on China will lessen any time soon. SunjayKapur, president, and chairperson, of the Automotive Component Manufacturers Association of India said, “ dependence on China exists and it is not going to go away overnight. We will have to continue investing in technologies to rescue this dependency.”

When it comes to producing and delivering car components around the world, China has a certain advantage. Local component suppliers not only support burgeoning domestic automakers but also serve as a lifeline for the majority of the top foreign competitors.

The sheer size of it all is one of the main causes of this. A fundamental economic tenet is that large production volumes drive costs down, and in China's case, this has worked incredibly well. Costs can once again be maintained to an absolute minimum because there is no labour shortage. And gone are the days when goods created in China were seen as being of lower quality. Because of technological developments and increased reliability, it is now possible to buy great goods in huge quantities for a lot less money than most other nations can even come close to.

Chinese markets in India

Because of India’s bilateral relations and open economic policy, it has been easy for Chinese companies to establish their base of operation here. One such industry which has been enjoying a larger market share than the domestic one is the Telecom Sector.

What has contributed to the growth of Chinese telecom companies in India is their price competitiveness in a price-sensitive market. According to Counterpoint Research, the Chinese vendors have a 75-80% share of the sub $150 segment, making them owners of 31% of the total

ISSN: 2455-8834

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smartphone market. Therefore, there is an urgent need to find a fully competitive replacement for Chinese products.

With a market share of roughly 30%, Xiaomi dominates the Indian smartphone industry in terms of individual brands. The Chinese corporation has a strong franchise in India thanks to its retail approach and special stores and service centers. It just debuted MiCredit, an online loan service.

Two subsidiaries of the Chinese giant BBK Electronics, Vivo and Oppo have captured a huge market share in India. Vivo Electronics has roughly about 17% market share. In FY'19, it reported annual revenue of around $1.5 billion. An assembly line operated by the corporation is located in Uttar Pradesh's Noida. Oppo is establishing a manufacturing base in the nation and has plans to invest close to $250 million over the coming several years. It made almost 1.8 billion dollars in revenue in the fiscal year 2018–19.

One Chinese manufacturing company is Midea, its selling point is white goods, robotics, and other industrial solutions. Carrier Midea India is the name of a Joint Venture that Midea has with the AC manufacturer Carrier. The exclusive rights to produce and market air conditioners under the Carrier Midea brand, Midea home appliances, and Midea commercial air conditioners belong to this joint venture, which has a manufacturing site in Bawal, Haryana.

Fosun India is a Healthcare Company engaged in pharmaceutical product manufacturing, research, and trading. The Chinese company made news when it purchased Hyderabad-based Gland Pharma, a market leader in the injectables sector, in October 2017 for $1.09 billion. It was the biggest Chinese acquisition in India at the time.

The consumer products company Haier India is a fully owned subsidiary of the Chinese electronics manufacturer Haier Group. It has been growing its product line, which now includes air conditioners, televisions, washing machines, refrigerators, and water heaters. It operates a production facility in Pune and is now establishing a second one in Uttar Pradesh. It brought in $12.4 billion in revenue globally in 2018–19.

There are numerous examples of such Chinese players in the Indian market. Soumya Bhowmick, the associate fellow at the Observer Research Foundation, stated to The Hindu, "not just India but several other countries are so dependent on Chinese products. This is primarily because China has mainly monopolised the lower ends of the global value chains." The latter spoke of the fundamental parts needed to make a product, like a pen cap for a pen. He continued by saying that "Make in India" does have the capacity to offer a substitute, but it would take "many years" to implement.

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According to Counterpoint Research, a complete ban on Chinese smartphone players is improbable. As for a general replacement, it said that "They need a strong portfolio, distribution, and after-sales services mix, which is currently missing from Indian brands." Mr. Bhowmick considered it doubtful that Chinese companies would wish to depart the Indian market so quickly, despite increasing regulatory scrutiny and the existence of substitute markets in Bangladesh, Thailand, and Vietnam.

Chinese Investments in India

Looking at the patterns in foreign direct investment over the past 20 years, India has received a total of US $456.91 billion, with more than 72% of that coming from only five nations: Mauritius, Singapore, Japan, the Netherlands, and the US—of which China is not one. China made just $2.34 billion, or 0.51 percent of all inflows, in foreign direct investments (FDI) in India during the same time period. However, despite this, there is no doubt that Chinese investments have increased significantly over the past few years to the point that they are now prevalent across a variety of industries, including infrastructure, cars, consumer goods, fintech, travel, transportation, e-commerce, etc. After 2014, Chinese investments in the Indian market—both in the form of private equity and greenfield investments—have grown significantly. According to the data collected by The Hindu BusinessLine, statistics from Tracxn show that investments from Chinese venture capital, private equity, accelerators, and incubators totaled $14.13 billion over 268 rounds in 2021, up from $3.95 billion over 225 rounds in 2020. Chinese investors made 232 deals totaling $6.68 billion in investments in Indian start-ups in 2019.

After the clash in Galwan Valley, India saw changes in its startup environment. The #BoycottChineseProducts movement was actively supported by the Indian public in the wake of the border issue between India and China. The services and goods provided by several startups that received financing from various Chinese corporations were also boycotted as a result.

However, a variety of Chinese businesses have made sizable investments in numerous startups all around the nation. Millions of dollars have been invested in numerous Indian startups by various Chinese businesses looking to gain a foothold in the Indian market. And they have had some success in this by making investments in well-known and significant startups and businesses in India.

According to Jane Li, a China Tech Reporter for Quartz, Alibaba and Tencent have been aggressively buying up stakes in Indian startups over the past five years. Many of the companies they've assisted in launching have now exceeded the US $1 billion mark and are considered unicorns. In fact, as of March 2020, Chinese investments had a significant stake in 18 out of 30 Indian unicorns.

International Journal of Social Science and Economic Research

ISSN: 2455-8834

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There are some leading recurring Chinese Investors who have captured the Indian market.

One such investor is the Alibaba Group. It is a multinational technology corporation founded in 1999 and is arguably the largest Chinese company to have invested in numerous Indian companies over the years. Online food ordering and delivery startup Zomato, payments startupPayTM, e-commerce firms Paytm Mall and SnapDeal, and online grocery store BigBasket are just a few of the largest Indian startups and businesses in which The Alibaba Group has invested.

The table provided by a website named Startup Talky gives a detailed view of the number of investments incurred by Alibaba.

Startup Name	Startup Founder	Amount
BigBasket	Hari Menon, VS Sudhakar and Vipul Parekh	$246 million
Paytm	Vijay Shekhar Sharma	$1.1 billion
Snapdeal	Kunal Bahl and Rohit Bansal	$150 million
Zomato	Deepinder Goyal	$512 million

Source: StartupTalky (April 14, 2022)

Another Chinese technology and entertainment company, Tencent Holdings, or simply Tencent, has made significant investments in Indian businesses. It was established in 1998. This organisation has invested in a wide range of startups and businesses, including PolicyBazaar, the online retailer Flipkart, the startup for online taxi booking, Ola, and the food delivery service Swiggy.

There is a rationale behind these investments. First off, India is considered to be one of the last unexplored rising markets because of the fierce competition and saturation in the Chinese domestic market. In fact, the Indian and Chinese markets operate in very similar ways, which has prompted investors to assume that there is plenty of opportunity to thrive in the former if scale efficiencies are correctly utilised. Additionally, it has been noted that Indian marketplaces lack money, which makes alternative investment sources warmly welcomed in the system. Third, the technological capability of Indian engineering colleges and the specialised skills of India's young population offer a tremendous amount of promise in terms of creativity and ideas. Chinese investors now have an easier time taking a chance on mid-low-tier businesses and turning them into high-stake cash cows. Last but not least, China enjoys a competitive advantage over the US

ISSN: 2455-8834

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because of these investments in India thanks to significant digital penetration into the Indian demography.

India also has its reasons to depend on these Investments. One of the primary factors in businesses accepting Chinese financing has been a lack of capital in India or a lack of capital allocated to entrepreneurs with an innovative business model. The startup scene has received virtually little interest from domestic investors. We also don't have businesses like Google and Facebook that are particularly interested in startups with goods that rely on the internet and are innovation-driven. Reliance Ltd., the company with the largest market value in the nation, has recently had to resort to Facebook for funding, which is unfortunate. Startups find it challenging to attract the attention of major international investors when it takes businesses of that size to accomplish so Chinese investment companies identified the void and have been successful in displacing American giants.

The long-term money offered by Chinese investors is another factor. Chinese investors primarily target start-up businesses that are in their early phases. At this stage, a startup's goal is to secure growth and broaden its market. However, achieving these objectives will need significant capital investment.

These startups are obviously not lucrative in their early phases for a few years. This is where the Chinese-provided patient capital comes into play. Chinese investment firms identify promising startups and offer them the funding they need to thrive, unlike domestic investors who hunt for successful businesses or safe investments.

As the figures represent, China has not only captured a large market but a diverse one as well, it has invested in a range of sectors from agriculture to E-commerce.

Discussion and Conclusion

The future standing of these industries have been drawn by comparing the past events of India-China clashes with the current scenario, further analysing whether the major component in play is the clash or the covid-19 pandemic. The study makes two important conclusions.

China expressed "serious worries" about the Indian limits on foreign investments last year during a discussion on India's trade policy at the WTO in January 2021. As their own apps have been pushed out of the Indian startup environment, Chinese investors may also become hostile toward it, but their void may likely be filled by alternative investments from other nations (mature markets like the US, UK, and Japan) and the development of its own investor culture. While there has been substantial progress in the Ease of Doing Business (EODB) Index, India still lags on EODB parameters areas such as enforcing contracts and registering property.

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There are requests for an alternative to the capital that was previously provided by Chinese investors in the middle of the deteriorating India-China ties. However, if the PM's demand for an "Aatmanirbhar Bharat" is understood, it also offers solutions if Aatmanirbharta in investments is implemented.

In 2019, startups raised Rs. 40,000 crores. At least 50%, or Rs. 20,000 crores, of the investments needed to realise Aatmanirbharta must come from within India. However, in order to promote this growth, the underlying reasons why domestic investors avoid startups must be addressed.

India must be able to attract significant capital to support local startups by a set of legislative reforms, such as motivating venture capitalists through tax concessions on such investments, etc., for Digital India or Make in India to be truly effective. In order to maintain economic success, national security requirements must also be fully balanced over time with the country's financial requirements.

Secondly, India used to be self-sufficient in medicines, but since 1990, due to the PSUs' carelessness and the encouragement of private firms, India has had to import up to two-thirds of its active pharmaceutical ingredients (API) and formulations from China. It goes for other industries as well. The war-like situation in the future can have a negative impact on these manufacturing sectors given the history of dependence on Chinese imports and Chinese investments. Given the current economic condition of India, it is preferable to have a diplomatic stand than go head-on into a losing battle.

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