

Can Chinese Investment help India's Manufacturing Sector?

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Once again, the updated statistics of trade between China and India is a cause for concern. While trade between the two countries continues to expand, the increased exports from China to India with little growth in the opposite direction is what is worrying. Over the first six months of 2026, while aggregate trade (exports from China to India plus imports from India by China) grew by 24 per cent to \$91.7 billion, India's exports to China, despite a 37 per cent rise, accounted for just \$12.3 billion of the total. As a result, the deficit in India's trade with China amounted to \$67.1 billion.

This unequal trade relationship between the two countries is also reflected in the composition of trade. India imports a range of intermediate and final manufactured goods from China, especially electronic equipment such as mobile phones, integrated circuits, and computers but exports semi-processed raw materials like iron ore and refined petroleum. That is reflective of the unequal relations in global trade that characterised under-developed countries emerging out of colonial domination after the Second World War. Yet, for years now, the government and policymakers in India have revelled in being clubbed with China as the emerging Asian majors that are set to challenge the economic leadership of the US and its allies. The odd label "Chindia" was deployed by those not wanting to give China, with its ambiguous status between being state-controlled and market-driven, its aggressive nationalism and its rising economic prowess, sole credit for transforming the international economic order established after the Second World War.

Of course, the stark differences in the level of development, degree of structural diversification, and technological advance between the two countries could not be ignored. Moreover, unlike China, India's manufacturing sector, a key barometer of economic strength, has seen limited development.

Not surprisingly, even while adopting a neoliberal economic policy stance, the Narendra Modi government, for more than a decade, made the development of manufacturing a central policy plank. However, this was defined as a "Make in India" strategy, suggesting that the thrust was to invite transnational firms to use India as the base for producing for the global market. The expectation was that the developed countries, for security reasons, would likely limit imports from China and reduce their dependence on production chains originating there. It was presumed that India would be the principal beneficiary of the diversification of import sources labelled the "China+1" strategy. Those expectations have been belied.

In that context, in a surprising development, an economist with past and current links with high-level policymaking in India has openly acknowledged the unequal relationship between China and India. Rakesh Mohan, currently a member of the Prime Minister's Economic Advisory Council and a former RBI Deputy Governor, has urged India to invite export-oriented Chinese investment. Such investment would help earn foreign exchange that would reduce India's trade deficit with China and boost exports of manufactured goods needed to mend India's chronically deficit balance of merchandise trade.

In recent decades, that deficit has been partly covered by India's receipts of remittances and export of software and IT-enabled services. But the merchandise trade deficit has been rising because of the volatility in oil prices and India's overall oil import bill, and there are signs that net receipts from services are beginning to shrink. Moreover, trade protectionism under US President Donald Trump, a policy being slavishly imitated by Western Europe, is constricting India's export access to those markets.

Mohan's recommendation, as reported by Bloomberg, is clear. In his view, India should open the door to greater Chinese investment as shifting geopolitics makes the US a less dependable partner. Instead of relying on protectionist policies, India should leverage its low manufacturing wages to attract capital from China to create jobs and boost exports in labour-intensive sectors such as textiles, garments, footwear, and furniture.

In pursuit of such a strategy, Mohan recommends that India reconsider its stance on regional trade pacts, especially the Regional Comprehensive Economic Partnership (RCEP) agreement, negotiations that India withdrew from on the grounds that it would be exploited by China to invade Indian markets. It is true that, even without RCEP support, China has increased its presence in Indian markets, facilitated by India's need for cheap imports from the country.

Undermining India's Early Strengths

There cannot be a more candid acceptance of the relative positions of the two countries in technology, trade, and potential partnership efforts. There is no reason to expect that the government would listen to this advice.

Nor is it clear that, given the history of border and geopolitical tensions, Chinese firms and the Chinese government would choose India for relocation of production since they have many such options in South-East Asia, South Asia, and even Africa and Latin America. The pursuit of a strategy of development dependent on Chinese investment in export-oriented production facilities as a substitute for development based on dependence on the US, South Korea, and Japan (besides Europe) could be one more futile exercise.

Strategies such as these are merely efforts to settle for the soft option when it comes to industrialisation. A feasible strategy would involve the state disciplining domestic capital and leveraging India's large market to build the indigenous technological capability and strength to grow as well as earn the foreign exchange needed to support that development effort.

At Independence, India was seen as the country that showed the most promise as one that could make the industrial transition. It had one of the largest domestic markets among countries exiting from colonial rule and the benefits of a century of factory-based industrialisation under the British, with a role for domestic capital in that process. It failed in that project initially because it failed to grow its domestic market by addressing asset and income inequality. It subsequently undermined much of its early strengths by pursuing growth as a subordinate producer seeking investments from globally mobile industrial capital.

It is time to rethink the strategy in entirely different ways and return to the task of redeeming the post-Independence promise that remains unrealised.

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