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Dialogue, Debate, and Discussion

De-globalization and Decoupling: A Luck of the Draw for India?

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The new geopolitical context represents a golden opportunity for India to leapfrog China, or at least to make up much previously lost ground. The rivalry between China and India has driven the latter into the welcoming arms of the United States. We argue that this realignment, in combination with a range of other developments, including growing suspicions of China worldwide and internal developments in India, may tilt the playing field in favor of India.

SINO-INDIAN RIVALRY AND DECOUPLING

Rivalry between China and India is deeply rooted. Apart from obvious differences, such as democratic vs. authoritarian governance, two major dimensions stand out. First, foreign policy. The two countries have competing territorial claims, which led to a short border war in 1962 and became salient in the public mind in the context of border clashes in 2020. India likewise sees itself threatened by growing Chinese influence in its immediate vicinity, especially in its arch-enemy Pakistan. Second, economic performance. While India had twice the per capita GDP of China in 1978, China has since pulled far ahead. India thus fell behind in the race of economic development, hurting national pride and reinforcing a sense of China as a political and economic threat.

This political and economic rivalry has prompted the strengthening of ties between India and the United States. While India historically sought to remain non-aligned during the previous Cold War and was closer to the Soviet Union, in the current geopolitical context of Sino-US rivalry, the principle of 'my enemy's enemy is my friend' has increased the incentive for India and the United States to collaborate more closely.

THE PULL AND PUSH FOR INDIA'S NEW OPPORTUNITY

We argue that this rivalry and recent geopolitical reconfigurations create a rare opportunity for India to catch up with or even bypass China. The underlying forces can be divided into pull – outside forces acting upon India – and push – developments inside India.

In terms of pull, we see three major forces at work. First, for both geopolitical and resilience reasons, supply chains are moving out of China in search of alternative locations. India, the only country with a comparably large population and technological capabilities, could be the optimal destination, especially in security-sensitive, high-tech sectors (Capri, 2021).

For example, a recent executive order signed by US President Biden called for the creation of 'China-free' supply chains in strategic industries, such as pharmaceutical and bio-pharma products, batteries, rare earths, and semiconductors (Capri, 2021). Firms from the US, the EU, Taiwan, South Korea, and Japan – all active players in these domains – are looking to decouple and relocate certain strategically important operations to India. This is partly reinforced by India's new geopolitical status as a member of the *Quadrilateral Security Dialogue* (QSD or QUAD), an informal strategic dialogue between the US, Japan, Australia, and India. In short, India is increasingly critical to the US to counterbalance China (Madan, 2020).

These developments are also linked to the reemergence of 'techno-nationalism', a concept that connects high-technology to a nation's overall security, economic prosperity, and social stability (Malcomson, 2021). One consequence has been a paradigm shift in conceptions of international economic structures, with policy makers having begun to abandon 'free trade' principles in favor of various reciprocal measures aimed at China's state-capitalist model (Li, 2021). In this context, India's democratic governance, despite its many flaws, favors Indian firms, as the world's democratic nations coalesce into blocs around mutually agreed upon, rules-based frameworks. At the same time, China's high-tech companies – often viewed as proxies of its authoritarian state apparatus – are likely to face mounting sanctions and export controls, which could hasten foreign firms' efforts to shift operations out of China to India and other locations, such as Vietnam and possibly parts of Africa.

Second, given the pandemic and the resultant backlash against China across the world, as well as growing suspicions about China Belt and Road Initiative motivations prompted not least by restrictive underwriting of project financing loans, India may benefit in other emerging markets because its business operations are less mistrusted there (*The Economist*, 2021). In particular, as Africa is emerging as the next arena of competition between the advanced liberal economies and China, India's history of private investments in Africa represents important examples of job-creating manufacturing ventures led by the private sector (e.g., Tata, Mahindra, and Birla; *The Economist*, 2021).[1]

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Third, Indian EMNEs are more likely to be able to execute springboarding strategies in the coming years than their Chinese counterparts (Luo & Witt, 2021). Springboarding critically depends on the ability of EMNEs to acquire technologically more advanced companies, most of which are located in the Western world. For Chinese EMNEs, these opportunities are becoming increasingly difficult to find, as Western economies have put in place measures to prevent Chinese acquisitions in strategic sectors. While these regulations are not officially aimed at any specific country, the budding alliance between India and the US suggests that Indian EMNEs will be seen as less threatening and thus more likely to obtain regulatory approvals.

In terms of push, a series of internal measures may enable India to leverage the external pull forces just discussed. Decoupling between China and India is already underway. In early 2021, less than a year after a major border clash between the Indian and Chinese armies in Ladakh, India permanently banned more than 250 Chinese apps, including WeChat, Baidu, and TikTok. India also passed a national security directive in 2020, which effectively barred Chinese telecommunication firms, such as Huawei and ZTE, from India's future 5 G wireless networks. To a large extent, part of the push dynamics derives from the historical roots of China-India rivalry (Madan, 2020), which have been reinforced by recent developments (Malcomson, 2021).

Further, India has also accelerated efforts to close down and separate itself from Chinese supply chains and capital investments. In the first three years of the Modi government, Chinese investors pumped US$6.4 billion dollars into India's tech sector (Capri, 2021). This funded more than half of India's new unicorns. Aimed primarily at suppressing the influence of Chinese direct investment, new constraints were imposed on the 'Automatic FDI Route', which had been established in 2015 to facilitate expeditious and free-flowing FDI into India (Capri, 2021).

In addition, India's decision to stay out of the Regional Comprehensive Economic Partnership (RCEP) was based primarily on its contention that joining the free-trade agreement would perpetuate the country's reliance on Chinese imports, particularly in the smartphone and other ESDM related industries (Capri, 2021; Qureshi & Wan, 2008).

India is clearly sensitive to the opportunity presented by the decoupling between China and the US, and is keen to make inroads into opportunities that China may be forced to vacate (Inamdar, 2020), especially in security-sensitive sectors. India seems to be moving into a position to absorb these supply chains. The government of Prime Minister Narendra Modi has rolled out reforms to attract foreign direct investment (FDI), create new infrastructure, and promote special economic zones (SEZs) and technology clusters. Related to this effort, India seeks to build up its local manufacturing capabilities (MGI, 2020). It is focusing on smartphones and other digital hardware, while also looking to spawn a new crop of national unicorns, which the government hopes will transform India into a high-tech export hub (MGI, 2019).

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Having a much younger workforce – India's median age is 28 years, China's, 37 years[2] – India stands to benefit from the demographic dividend resulting from a demographic transition toward a population dominated by people of working age (Bloom, Canning, & Sevilla, 2002). While the demographic dividend in China is a thing of the past and possibly giving way to 'demographic taxation' in the near future as a result of rapid societal ageing, the situation in India is just the opposite (Golley & Tyers, 2012; MGI, 2020). This puts India in a position to replace China as the labor-intensive low-cost factory of the world.

In sum, the blend of both geopolitical pull dynamics and internal push initiatives suggests that India faces a historic opportunity to gain economic ground on China and, potentially, capture enough of the high-technology value chain to become a major technology hub.

CONCLUSION

China, India, and the US may well develop a new triad relationship, especially high-technology sectors central to national security questions. Increasing cooperation between India and the US stands in contrast to the growing tension between India and China. Probably more than ever before, the stars are aligned for rapid Indian economic development. Given its economic history full of disappointments, one can only hope that India will not squander this opportunity.

NOTES

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[1] In recognition of the implications of China's investments in Africa, *Management and Organization Review* has announced a Research Frontiers Conference and Special Paper Development Workshops on the overarching theme of Chinese OFDI in Africa (https://www.cambridge.org/core/journals/management-and-organization-review/information/open-calls/cfp-china-ofdi-to-africa).

[2] https://en.wikipedia.org/wiki/List_of_countries_by_median_age

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