

# India becomes main recipient of China-tech FDI

**The two Asian superpowers are strengthening ties, but new FDI screening rules loom ahead**

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India has emerged as the destination of choice for foreign investment by Chinese tech companies as the two Asian superpowers strengthen relations, although Delhi's fresh move to raise barriers to takeovers from neighbouring countries is likely to slow down this trend moving forward.

Whereas China sourced 35 projects in India's IT and electronics sector in the 12 years between 2003 to 2015, it sourced 88 projects in the next four-year period between 2015-19, according to the FT's foreign investment monitor fDi Markets.

India was the main destination for Chinese foreign investment in the IT and electronics sector in 2019 with 19 inbound projects, which is more than double the eight projects invested in Russia, the second-highest destination for investment, according to fDi Markets. Typical recipients of Chinese FDI into the IT and electronics sectors, such as the US and Germany, lagged further behind with, respectively, seven and five projects each in the period.

Among others, Salcomp, a developer and manufacturer of power supplies and a subsidiary of China-based Lingyi iTech, announced the opening of a new manufacturing facility in Chennai, India, in November 2019. The \$279.4m investment is to produce mobile chargers and smartphone components, primarily for export markets.

## **Controlling stakes**

China's investment in India's tech scene extends beyond FDI, as large companies from its private sector have increased acquisition of minority or controlling stakes in Indian companies. Led by tech giants Baidu, Alibaba, and Tencent, Chinese investments into Indian start-ups increased fivefold to \$5.6bn in 2018, up from \$668m in 2016, according to data from Tracxn.

Tencent and Alibaba have acquired diversified portfolios in India, ranging from Alibaba's \$216m investment in online grocer BigBasket and \$210m investment in food delivery app Zomato, to Tencent's \$400m investment in ride-hailing app Ola. Tencent also invested \$700m in e-commerce platform Flipkart in April 2017 as part of a deal that broke the record for most money raised by an India company.

However, the spending spree of Chinese companies in India may come to an abrupt halt as the Indian government approved a new regulation in mid-April to prevent "opportunistic takeovers" by neighbouring countries as the Covid-19 crisis is hitting business valuations across the board. Now onwards, companies from the likes of China, as well as Pakistan and Bangladesh, among others, would require government approval before investing in an Indian company.

India has overtaken the US as China's main destination market for IT and technology investments. The number of Chinese greenfield investments in the US's IT and electronics sector hit a seven-year low in 2019. During the first half of this seven-year period (January 2013-June 2016), China invested 40 projects into the US and 32 into India in the IT sector. In the second half of this seven-year period, (July 2016 to December 2019), Chinese investments into India more than doubled to 65 in the sector, whereas projects into the US decreased to 36.

Overall investment (greenfield and M&A) from China into India doubled in 2019, according to figures from Grisonspeak LLP. President Xi Jinping invited Prime Minister Narendra Modi to participate in a 100-year strategic plan for both countries, according to Henry Tillman, chairman of China Invest Research, the Chinese macro research arm of Grisons Peak merchant banking. "India's historical innovation in IT and pharmaceuticals continues to attract increasing Chinese investment," he said.

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