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How rapidly could India absorb investments leaving China?



India has the best chance of replacing the term "plus one" in the strategies of international investors with "China +1", which describes the diversification of supply chains and production as far as possible away from excessive concentration and dependence on China.

These trends are consistent with India's expectations to attract the capital leaving China and moving to other developing markets. This process is already underway, even though estimates indicate that it would not be sudden but long-term.

In contrast to a number of unfavourable trends in China, India emerges as a safe alternative due to a combination of favourable economic, geopolitical, and psychological factors for receiving investments.

China has had no success regarding plans for strong economic growth after lifting a 3-year lockdown last year.

Boosting the economy after the COVID-19 pandemic was a principal state goal at last year's Chinese Communist Party Congress, but growth turned out to be lower than planned.

Factors driving investors away from China

At the same time, internal economic problems have escalated, for which the state-controlled economy has no solution.

The overinflated real estate market threatens to burst, youth unemployment is critical, and the authorities have stopped publishing statistical data on these parameters.

Investors have also faced severe non-economic factors, which make them feel insecure in China, primarily because of anti-espionage regulations turning market research, for example, into a risky activity for investors.

The process that began with the opening of China to foreign investments 3 decades ago

and elevated it to the position of the second largest economy globally is currently experiencing a downward trajectory.

The Chinese leadership seems less able to deal with negative internal trends and external restrictions, resulting from the policy of increasing Chinese influence globally.

This strategy has given leader Xi Jinping cult status in the country but made China a risky and unpredictable part of supply chains, and it has been suffering from the response of the world's largest markets and investors.

India has been emerging as a safe alternative

Investors have recognised that the risk for investments in private and state sectors in China has increased due to unfavourable internal economic trends, an unenviable geopolitical position, and its aggressive imposition of influence.

India has emerged as a logical, safe and cost-effective alternative for investors who have been leaving China or plan to do so. That migration is already underway.

Announced investments from Europe and the US in India increased by as much as 400% between 2021 and 2022 (to about \$65 billion), while at the same time, in China, they dropped to less than \$20 billion, which is six times less than the record 2018, showed a report by the Rhodium Group, which researches China's business environment.

India has received about \$13 billion of foreign capital since the beginning of the year, more than South Korea or Taiwan, a traditionally sought-after destinations for investments because of their semiconductor industries.

Benefits from the tensions between China and the West

India has already benefited and will benefit from the tensions between China and the West regarding security issues in the Pacific and even more from China's unreliability as part of the supply chain in sensitive and high-tech industries.

India's positioning towards cooperation with Western blocs is bearing fruit because, unlike China, it offers investors a stable, predictable and growing economic, and at the same time, democratic environment.

According to the IMF, India will record high growth of 6.3% this year, with domestic demand having steady growth, thanks to the growing purchasing power of the middle class.

These trends are the opposite of China's and seem attractive to investors searching for a safer environment for capital.

"India is a slow trundling elephant that still has many hurdles, but is now a viable alternative to China. India stands to benefit from the decline in terms of the attractiveness of foreign direct investment and portfolio flows of China. India has been aligning itself with the democratic alliances of the richest and most vibrant economies in the world," David Roche, a veteran investor, told CNBC.