

China +1 and India's Manufacturing Ambition

From alternative destination to long-term manufacturing capability

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Introduction

As companies diversify their supply chains and reduce dependence on a single production base, India has an opportunity to move from being an alternative destination to becoming a serious manufacturing hub. But the opportunity is not just about attracting factories. It is about attracting the capital, technology, components and supplier networks that make manufacturing competitive.

This makes China+1 more than just a corporate strategy. For India, it is a policy opportunity. The country is seeking to deepen its integration with global value chains (“GVCs”), but if critical inputs, technology and machinery continue to come from elsewhere, production may shift to India without the underlying supply chain doing the same.¹

Therefore, the question is not simply whether India can attract more manufacturing investment. It is whether India’s policy framework can convert that investment into long-term manufacturing capability.

The opportunity is bigger than relocation

China+1 is often understood as companies moving production away from China. But the reality is more complicated. The Economic Survey 2023-24 noted that countries such as Mexico, Vietnam, Taiwan and South Korea benefited from trade diversion from China while also experiencing an increase in Chinese investment. This suggests that China+1 does not necessarily mean replacing China. Instead, companies can diversify production while continuing to use China’s manufacturing ecosystem.²

This distinction matters for India. If companies simply move final assembly to India while continuing to source most components and other inputs from China, India may gain production without developing the wider ecosystem that supports it.

However, India’s opportunity depends on the quality of the ecosystem it can offer investors. The Economic Survey 2025–26 emphasises that sustaining foreign investment requires a stronger investment climate, deeper integration into global value chains and coordinated

¹ NITI Aayog, *Annual Report 2025–26*, at 78 (2026), [https://www.niti.gov.in/sites/default/files/2026-05/Annual%20Report%20of%20NITI%20Aayog%202025-26%20\(English\).pdf](https://www.niti.gov.in/sites/default/files/2026-05/Annual%20Report%20of%20NITI%20Aayog%202025-26%20(English).pdf)

² Government of India, Ministry of Finance, *Economic Survey 2023–24*, ch. 4, at 3, 41 (2024), <https://www.indiabudget.gov.in/budget2024-25/economicsurvey/doc/eschapter/echap04.pdf>.

policy action. It also identifies logistics, regulatory costs and workforce capabilities as important determinants of manufacturing competitiveness.³

But becoming a competitive manufacturing hub requires more than factories. It requires component suppliers, machinery, technology, logistics, skills and access to international markets. This is where foreign investment policy becomes central to India's China+1 strategy.

China is part of the equation, not the whole strategy

The China+1 strategy does not necessarily mean China –1. The Economic Survey 2023–24 notes that India can benefit from China+1 by integrating into Chinese supply chains through trade or by attracting Chinese FDI to support domestic value addition and exports. The experience of Vietnam, Mexico, Taiwan and Korea shows why: these economies benefited from the diversion of US trade away from China while simultaneously seeing an increase in Chinese FDI.⁴

The policy objective should therefore be strategic openness: attracting foreign investment from multiple partners while directing it towards sectors where India needs greater manufacturing depth, technology and supply-chain resilience. The experience of East Asian economies suggests that two factors are particularly important for integrating into global value chains: lowering trade costs and facilitating stable foreign investment.⁵ For India, this means that investment reform cannot operate in isolation. It must be supported by efficient logistics, predictable regulation and an ecosystem that enables foreign firms to build deeper links with domestic suppliers.⁶

Is India opening its door?

³ Government of India, Ministry of Finance, *Economic Survey 2025–26*, ch. 4 (2026), <https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf>

⁴ Government of India, Ministry of Finance, *Economic Survey 2023–24*, ch. 4, at 42 (2024), <https://www.indiabudget.gov.in/budget2024-25/economicsurvey/doc/eschapter/echap04.pdf>.

⁵ Government of India, Ministry of Finance, *Economic Survey 2023–24*, ch. 4 (2024), <https://www.indiabudget.gov.in/budget2024-25/economicsurvey/doc/eschapter/echap04.pdf>

⁶ World Bank, *World Development Report 2020: Trading for Development in the Age of Global Value Chains* (2020), <https://www.worldbank.org/en/publication/wdr2020>

India's FDI regime has already begun to respond to this opportunity. In 2020, Press Note 3 introduced a government-approval requirement for investments from countries sharing a land border with India.⁷ In March 2026, the Union Cabinet amended this framework.⁸

The revised framework allows investors with non-controlling beneficial ownership of up to 10% from land-bordering countries to invest through the automatic route, subject to applicable sectoral caps and conditions. It also provides for proposals involving specified manufacturing activities, including capital goods, electronic capital goods, electronic components, polysilicon and ingot-wafer, to be processed and decided within 60 days.⁹ The government's stated objective is broader than just increasing FDI. The Cabinet said the changes are intended to support manufacturing, facilitate access to technology, increase domestic value addition and help Indian companies integrate with global supply chains.

The early response also suggests that the revised framework is not relevant only to Chinese investment. By 20 August 2026, the government reported 29 investments worth INR 4,895.65 crore under the revised framework. The investors or entities were based in jurisdictions including the United States, Japan, South Korea, Singapore, Mauritius, Luxembourg and the Cayman Islands, with proposals across manufacturing, IT, AI, pharmaceuticals, data centres and transport.¹⁰

This is important for how India should think about China+1. The objective should not be to replace dependence on one country with dependence on another, but to build a more diversified manufacturing ecosystem. India should therefore seek investment from multiple partners while ensuring that the capital, technology and production capabilities

⁷ Ministry of Commerce & Industry, Government of India, Department for Promotion of Industry and Internal Trade, *Press Note No. 3 (2020 Series): Review of FDI Policy on Investment from Countries Sharing Land Border with India* (Apr. 17, 2020), <https://www.dpiit.gov.in/static/uploads/2025/07/c7586a2dee61bf88f73512a46d8a9ab1.pdf>.

⁸ Press Information Bureau, Government of India, *Cabinet Approves Changes in Guidelines on Investments from Countries Sharing Land Border with India* (March 10, 2026), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2237806&lang=2®=48>

⁹ Konark Bhandari, *India's Press Note 3 Gamble: Opening the FDI Door to China*, Carnegie India (April 28, 2026), <https://carnegieendowment.org/research/2026/04/indias-press-note-3-gamble-opening-the-fdi-door-to-china>

¹⁰ Press Information Bureau, Government of India, *29 FDI Investments Worth ₹4,895.65 Crore Reported Under Revised Framework* (Aug. 2026), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2301992&lang=1®=48>

they bring deepen domestic manufacturing capacity and strengthen India's integration into global value chains.

China's New Supply Chain Law Is the Warning India Can't Ignore

This is where China's recent policy changes provide an important lesson. On 7 April 2026, China introduced its Regulations on the Security of Industrial and Supply Chains.¹¹ The regulations establish mechanisms to monitor risks to industrial and supply chains and allow relevant authorities to investigate and take countermeasures against activities that undermine China's industrial and supply-chain security. They also cover the stable production and circulation of raw materials, technologies, equipment and products in key sectors.¹²

These developments expose a central weakness in the China+1 strategy: moving production is not the same as moving the supply chain.¹³ China still accounts for roughly 62% of India's electronic component imports,¹⁴ and CRISIL's August 2026 analysis found electronics among India's three most import-intensive manufacturing sectors, with imports accounting for 29.8% of total domestic supply.¹⁵ An assembly line relocated to India can still be, in every material sense, a Chinese supply chain wearing an Indian address. Indian electronics manufacturers have warned that continued dependence on Chinese components and capital equipment could create risks for supply-chain stability, investment and manufacturing expansion.¹⁶ Therefore, an electronics manufacturer may establish an assembly facility in India while continuing to rely on China for the machinery,

¹¹ *China Upgrades Regulations on Industrial & Supply Chain Security*, Lexology (2026), <https://www.lexology.com/library/detail.aspx?g=6bab82f6-998d-48b6-8c82-dd66920dbb47>

¹² State Council of the People's Republic of China, *Regulations on the Security of Industrial and Supply Chains* (Apr. 7, 2026), https://english.www.gov.cn/policies/latestreleases/202604/07/content_WS69d5038cc6d00ca5f9a0a460.html

¹³ *Id.*

¹⁴ CII Says Reducing Dependence on China 'Critical' for Electronics Industry*, Business Standard (June 24, 2024), https://www.business-standard.com/industry/news/cii-says-reducing-dependence-on-china-critical-for-electronics-industry-124062400332_1.html

¹⁵ *India Imported Nearly \$40 Billion Worth of Electronic Components in FY26: CRISIL Data*, New Indian Express (Aug. 19, 2026), <https://www.newindianexpress.com/business/2026/Aug/19/india-imported-nearly-40-billion-worth-of-electronic-components-in-fy26-crisil-data>

¹⁶ *Indian Electronics Makers on Edge as China Tightens Supply Chain Controls*, Moneycontrol (May 21, 2026), <https://www.moneycontrol.com/technology/indian-electronics-makers-on-edge-as-china-tightens-supply-chain-controls-article-13926162.html>

components and processing technology needed to operate it. Geographical diversification, in other words, does not automatically translate into supply-chain diversification.

This is precisely where India can shift the China+1 chapter into a larger opportunity. The objective should not be to maximise the volume of FDI alone, but to maximise the capabilities created by it. The Economic Survey 2025–26 points to the importance of access to capital goods, technical education, standards and testing infrastructure and targeted research support in enabling technological upgrading. For India, this means using foreign investment to strengthen domestic suppliers, improve technology absorption and develop the skills and capabilities needed to move beyond assembly.¹⁷

From relocation to industrial capability

The policy challenge for India is to ensure that the China+1 shift translates into deeper domestic manufacturing capabilities, rather than simply more assembly. This means building stronger links between foreign firms and Indian suppliers, improving technology absorption and reducing dependence on critical inputs. At the same time, India needs a policy environment that is predictable and competitive, with efficient approvals, better logistics and lower regulatory costs.¹⁸

Therefore, India needs to balance openness with strategic considerations. Investment that brings technology, skills, supplier networks and access to global markets should be encouraged, while sensitive investments can remain subject to greater scrutiny. The focus should be on what investment creates in India, not simply where it comes from.

China+1 is an opportunity, but it is not an automatic advantage for India. The real opportunity lies in using this shift to build the suppliers, skills, technology and production capabilities that can make India a more competitive and resilient manufacturing hub. India's challenge is not just to attract the next factory, but to ensure that the next factory becomes part of a manufacturing ecosystem.

¹⁷ Government of India, Ministry of Finance, *Economic Survey 2025–26*, ch. 4 (2026), <https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap04.pdf>

¹⁸ NITI Aayog, *Key Sectors to Position India as a Global Manufacturing Hub* (2026), <https://www.niti.gov.in/node/2394>