# YUAN or RUPEES?

## Adapting to a Shifting Trade Landscape in the APAC Region

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# 1. Foreword

Amid increasing geopolitical tensions and supply chain uncertainties, many foreign companies are evaluating their ability to maintain their operations in China and strategically reassessing their Asia-Pacific (APAC) strategy going forward. For some companies, this reassessment implies pursuing strategies to localize supply chains and reduce economic dependency on the Chinese market. This approach often involves investments in alternative countries to diversify and spread the risk of their supply chains in the APAC region.

The aim of this white paper is to gain a deeper understanding of the shifting sentiments towards the Chinese and Indian markets among Swedish MNCs, focusing on current attitudes toward the Chinese market and India's potential role as a replacement economy. How are Swedish companies navigating this new trade landscape where business decisions are increasingly affected by geopolitical considerations? Are they planning to leave or reduce investments in China? Is India a feasible substitution, or a just a positive addition to Swedish MNCs broader APAC strategies?

This project is completed in a collaboration between the Swedish Chamber of Commerce in China and India, providing unique first-hand observations and data from member companies active in both markets. This report was made possible by a generous grant given by the Swedish Foundation Stiftelsen Fonden för Exportutveckling, which is a foundation that works toward encouraging Swedish enterprise worldwide, supporting exports and value-creating internationalization. Their primary method of support is to give grants to various projects and research efforts, such as the grant that was given for this white paper, and for that we greatly thank the Foundation.

## 2. Key Findings

1. The results are showing that surveyed companies are indeed restructuring their supply chains, but these decisions are more motivated by localization, rather than politics. Despite ongoing geopolitical tensions, only 27 percent of the China-survey respondents believe geopolitical developments have had a high or very high impact on their APAC strategies over the past five years. In India, most companies agreed that geopolitical tensions related to China had some influence on their operations, but none claimed that it was affecting their supply chains. Despite this, companies surveyed in China listed “geopolitical concerns” as the number one reason for why their companies hesitate to invest and expand in China.

2. Out of all the Swedish MNCs surveyed for this report, none are planning to divest any of their operations in China. About 26 percent are continuing to invest at maintenance-level, and another 66 percent of respondent companies are investing and aiming to continue growing in the Chinese market. However, around 70 percent have taken minor or moderate efforts to derisk from the Chinese market, which could involve such measures as updating contingency plans, investing in other countries in the APAC region, or adding back-up suppliers to existing supply chains.

3. Of the companies surveyed in India, 75 percent are planning to increase their investments. This is largely due to the market’s improving business climate, its growing economy, and a comparatively cheap labour force. However, while India offers a market that is more cost-competitive compared to China, the quality of the infrastructure makes it difficult for companies to fully integrate their supply chains within their country, or for the Indian market to be a viable replacement to the Chinese market.

4. Many Swedish MNCs are currently adopting various localization strategies. In China, this is usually referred to as the "China-for-China” strategy, focusing on developing production and supply chains within China primarily to serve the Chinese market. For some companies this means scaling down their presence, but for many it means further investments and commitment to the market by increasing local R&D, entering Joint Ventures (JVs), or acquiring companies. The same trend has been observed in India and has been a main factor motivating companies to restructure their supply chains.

5. A clear majority of surveyed companies in both countries viewed China and India as complementary in their company’s supply chains. Companies are not looking to replace their operations in China by exiting the country, but rather to complement them by expanding into other APAC markets like India, Vietnam and Indonesia. Different markets offer unique strengths and opportunities, allowing companies to diversify their production and reduce overall risk.

6. Despite the issues foreign companies are facing in the Chinese market currently, other factors are encouraging Swedish MNCs to not just remain in China, but to continue investing and expanding. For our respondents, the most important factors keeping Swedish MNCs in China are the market size and its growth potential, the Chinese sourcing networks and manufacturing clusters, and the significant investments these companies have already made

into China.

7. Headquarters in Europe often tend to have a more critical view of China compared to those working locally in China, which affects decisions on strategy and can cause a mismatch of perceptions. The interviewed companies in China highlight the need to maintain clear communication between headquarters and local offices to bridge this perception gap and encouraged arranging regular visits from HQ to China.

8. Other countries in the APAC region beside China and India are also appearing to gain increased relevance for the sourcing and investing strategies of Swedish MNCs. While most companies will continue to invest in China, increasing their presence in the rest of the APAC region is one method to strengthen supply chains, reduce certain risks, and gain exposure to more markets. About 50 per cent of Swedish MNCs surveyed in China are currently looking to countries in the APAC region beside China and India for expansion or new investments.

# 3. Background

### 3.1 "De-risk, not Decouple"

The global business climate is becoming increasingly politicized. This trend is perhaps particularly noticeable in trade relations between China on one hand, and the broadly defined West on the other. Using economic instruments aimed at strategic reconfigurations of supply chains, some Western companies are expressing intent to reduce dependence on China's domestic market and suppliers. This trend has been built up over time, but recent years have shown a notable surge in policies aimed at diversification. Starting from the trade war between China and the U.S. in 2016, the onset and fallout of the Covid-19 pandemic, followed by the war in Ukraine, economic policies in the West have become increasingly protective[1]. Some western governments have expressed a wish to further exclude China from certain critical supply chains, especially those underpinning sensitive electronic products and green technology. Among other actions, China has responded by encouraging domestic production with their "Made in China 2025" policies, alongside limiting foreign economic activity in certain sectors.

"De-risking" is a term commonly associated with this new trade landscape, which often implies defensive measures meant to decrease the reliance on any market that is potentially risky, and thus limiting exposure to any issues that may disrupt operations, such as supply chain issues and nontariff barriers. The concept is frequently associated with "decoupling," which essentially implies a full economic break with the targeted country.[2] However in the context of trade with China, de-risking was created as an alternative to the complete disintegration of economic ties that is decoupling[3]. Starting from 2023, European leaders have increasingly favoured a softer approach, exemplified by Ursula von der Leyen, the European Commission President, who highlighted that China would remain an important trade partner, encouraging companied to "de-risk, not decouple."[4]

Unlike the U.S., whose bilateral trade with China declined 15.4 percent between 2022 and 2023,[5] European companies find it more challenging and less urgent to scale back their activities in China.[6] This highlights a reality faced by many foreign companies in China: while being pressured to restructure their global supply chains to safeguard against risks, the sheer prior investment, market size, and existing dependencies on the Chinese market also incentivizes companies to continue trading and investing in certain sectors. Compared to a complete decoupling, de-risking leaves further room for interpretation, leaving many businesses at a crossroad. A paper from the German Council on Foreign Policy found that larger German companies are persisting with their investments primarily

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[1] A Closer Look at De-risking. Emily Benson (CSIS, 2024). https://www.csis.org/analysis/closer-look-de-risking

[2] Riskful Thinking: Navigating the Politics of Economic Security. The European Chamber of Commerce in China (EUCCC, 2024). https://www.europeanchamber.com.cn/en/riskful-thinking-report

[3] EU leaders talk China de-risking, but will they start walking? János Allenbach-Ammann (Euractiv, 2023). https://www.euractiv.com/section/economy-jobs/news/eu-leaders-talk-china-de-risking-but-will-they-start-walking/

[4] EU leaders talk China de-risking, but will they start walking? János Allenbach-Ammann (Euractiv, 2023). https://www.euractiv.com/section/economy-jobs/news/eu-leaders-talk-china-de-risking-but-will-they-start-walking/

[5] Why Europe Will Struggle to 'De-Risk' From China. Agathe Demarais (Foreign Policy, 2023). https://foreignpolicy.com/2023/09/19/europe-eu-china-derisking-decoupling-economy-sanctions-trade-investment-taiwan-geopolitics/

[6] China "De-risking" - A Long Way from Political Statements to Corporate Action. Ole Spillner, Guntram Wolff (German Council on Foreign Relations, 2023). https://dgap.org/en/research/publications/china-de-risking

out of concern for the economic loss of de-risking, suggesting that the costs of shifting supply chains are simply too high for some.[7] Additionally, a report by the European Chamber of Commerce in China found that many challenges faced by European firms in China are due to the "hyper concentration of supply chains in [China, which] suggests that competitive dynamics drove many to deprioritise resilience over the past decade or so" (EUCCC 2024, p.44). The importance of China for the supply chains of Swedish and other European firms cannot be understated.

De-risking is thus a somewhat imprecise concept. European companies are currently pursuing a multitude of strategies in the APAC region, everything from completely divesting to doubling down on investing in China to create a self-contained China-for-China business model. The result of this paper shows that complete decoupling remains an option not favoured by many, if any, large Swedish companies. However, there is a chance that this could begin to change with the emergence of alternative markets that could substitute some of the roles currently played by the EU's second-largest trading partner.[8] While this may not happen any time soon, many companies are currently actively searching for such markets that will allow them to diversify their operations and supply chains.

### 3.2 The Slow Trundling Elephant

Many Western companies are turning to the neighbouring shores of India as a potential solution. With a notably low labour costs and recent increase in capital inflow, the country has attracted sourcing from all over the world.[9] India also overtook China as the world's most populous country, and estimations by EY show that by 2030, one-fourth of our global incremental workforce will be found within its borders.[10] David Roche compares the country to a "slow trundling elephant," highlighting its vast size and steady economic growth that is projected to continue.

Roche also emphasizes that India has benefitted from the "decline in terms of attractiveness of foreign direct investment and portfolio flows of China."[11] This is extra clear in the technology industry. Southern India is a growing Silicon Valley, representing 46% of the country's total electronics exports. This region has already become a hotspot for the shifting of certain supply chains from China to India.[12] For example, Apple and Intel recently moved the production of their upcoming products to

7 EU-China Relations – Trade, Investment, and Recent Developments. Arendse Huld (China Briefing, 2023). https://www.china-briefing.com/news/eu-china-relations-trade-investment-and-recent-developments/

8 On American shelves, Made-in-India is slowly replacing Made-in-China. The Economic Times (ET, 2023). https://economictimes.indiatimes.com/news/economy/foreign-trade/on-american-shelves-made-in-india-is-slowly-replacing-made-in-china/articleshow/105070158.cms

9 On American shelves, Made-in-India is slowly replacing Made-in-China. The Economic Times (ET, 2023). https://economictimes.indiatimes.com/news/economy/foreign-trade/on-american-shelves-made-in-india-is-slowly-replacing-made-in-china/articleshow/105070158.cms

10 India: What You Need to Know About the World's Largest Workforce. Shefali Anand (SHRM, 2023). https://www.shrm.org/in/topics-tools/news/india-need-to-know-worlds-largest-workforce#:~:text=This%20has%20big%20implications%20for,decade%20will%20come%20from%20India

11 India is a 'slow trundling elephant' but a viable alternative to China, says veteran investor David Roche. Charmaine Jacob (CNBC, 2023). https://www.cnbc.com/2023/10/23/india-is-a-slow-trundling-elephant-but-a-viable-alternative-to-china-david-roche.html#:~:text=Veteran%20investor%20David%20Roche%20said,second%2Dlargest%20economy%20by%202075

12 The Economist March 2nd, 2024, page 21.

India, using the hedging strategy known as "China plus one"[13], retaining a significant presence in China but complementing it with new investments in one or more other APAC (Asia-Pacific) countries.

However, the Indian market also has its challenges. The labour force is still considerable low-skilled, and infrastructure is lacking. This makes it difficult for India to grow at the same rates of China, Japan and South Korea during their respective growth periods, which was around 10 percent annually.[14] Instead, Morgan Stanley projects that India will continue to grow at 6.5-7 percent, which can also be due to an overall slow-down of globalisation.[15] Secondly, the lack of "state capacity" makes it hard for the country to take full advantage of the investments that are currently streaming in.[16] In short, there are many factors suggesting that India needs more time to gain the advanced technology and competitiveness to compare with China. So, until then, are China and India substitutes, complements, or mostly unrelated in the business decisions taken by Swedish MNCs?

## 4. Aim and Purpose

This white paper report aims to investigate the attitudes and strategies of Swedish MNCs regarding the current trends of derisking from China, increasing investments into the Indian market, and generally diversifying production and supply chains within the APAC region. The target companies are Swedish MNCs that are currently present in both the Chinese and Indian markets.

The purpose is to understand how these companies are balancing pressures to safeguard their interests and competitiveness, while also considering profitability. This report maps out the sentiments in the region and examines whether India is best seen by Swedish MNCs as feasible alternative to China or more as a complementary market, encouraging further research to be conducted on this evolving and dynamic topic.

## 5. Methodology

The report includes both quantitative and qualitative data, to increase comparability and allow authors to investigate potential points of interest.

Since both authors worked at the Swedish Chamber in India and China when the data for this report was collected, two separate surveys were sent out to 38 different member companies. The survey consisted of two sections, one was the same in China and India, and the second one consisted of country-specific questions. Only mid-to large sized MNCs that are present (have offices and active operations) in both the Chinese and Indian markets were included in the send-out. Questions were sent to targeted employees that worked with supply chains or global procurement. The response rate was 39 percent (15) in China, and 22 percent (8) in India.

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[13] India dreams of replacing China as the world's factory. Carole Dieterich (Le Monde, 2024). https://www.lemonde.fr/en/economy/article/2024/02/24/india-dreams-of-replacing-china-as-the-world-s-factory_6553982_19.html

[14] The Economist, 30th March 2024, The Importance of leadership, page 65.

[15] India can't match China's past 8-10% growth, Morgan Stanley says. Anup Roy (The Economic Times, 2024). https://economictimes.indiatimes.com/news/economy/indicators/india-cant-match-chinas-past-8-10-growth-morgan-stanley-says/articleshow/108584903.cms?from=mdr

[16] The Economist, 30th March 2024, The Importance of leadership, page 65.

The second half of the study consists of six semi-structured interviews, which varied between 15 minutes and 60 minutes. Half were conducted online, and half were conducted in-person at the interviewed company's office. The semi-structured nature implies that interviewees can steer the conversation, which allows authors to uncover new topics and identify their specific points of interest. Each interview began with a few standardised questions, which were followed by topic-specific questions based on each company's response in the survey. All interviews were transcribed on the consent of interviewees. Apart from AQ Group who agreed to participate publicly, the interviewed companies will be referred to as "China 2" and "India 1" etc. for anonymity reasons. For more information about interviewed companies, see **Appendix 1**.

## Participating companies

### CHINA

**15 surveyed**
**3 interviewed**

- China 1 - AQ Group
- China 2 - Large Swedish MNC
- China 3 - Rail industry

### INDIA

**8 surveyed**
**3 interviewed**

- India 1- Manufacturing
- India 2 - Retail industry
- India 3 - Engineering

A majority (around 50%) of the respondents in China and India are from the **Machinery and Industrial Manufacturing Industries**, which corresponds to the overall spread of industries in the Swedish Chamber of Commerce in both countries. The remaining participants represents a multitude of industries, such as retail, metal products, automation & information technology, packaging, etc.

# 6. Results China

### 6.1 Swedish MNCs' Commitment to China

> *The talk just one-two years ago was a lot more black-and-white, and the word decouple has almost faded away completely. Today I observe more nuanced conversations, where derisking supply chains rather than decoupling is discussed. A more reasonable and healthy way to approach it.* – China 2

A key finding from the survey is that out of those Swedish companies surveyed in the Chinese market, none are looking to completely exit the market, instead, almost 75 percent are aiming to increase their presence in China through new investments and acquisitions. The graph below shows that all surveyed companies are either investing enough to maintain their operations in China or are looking to grow in the market.

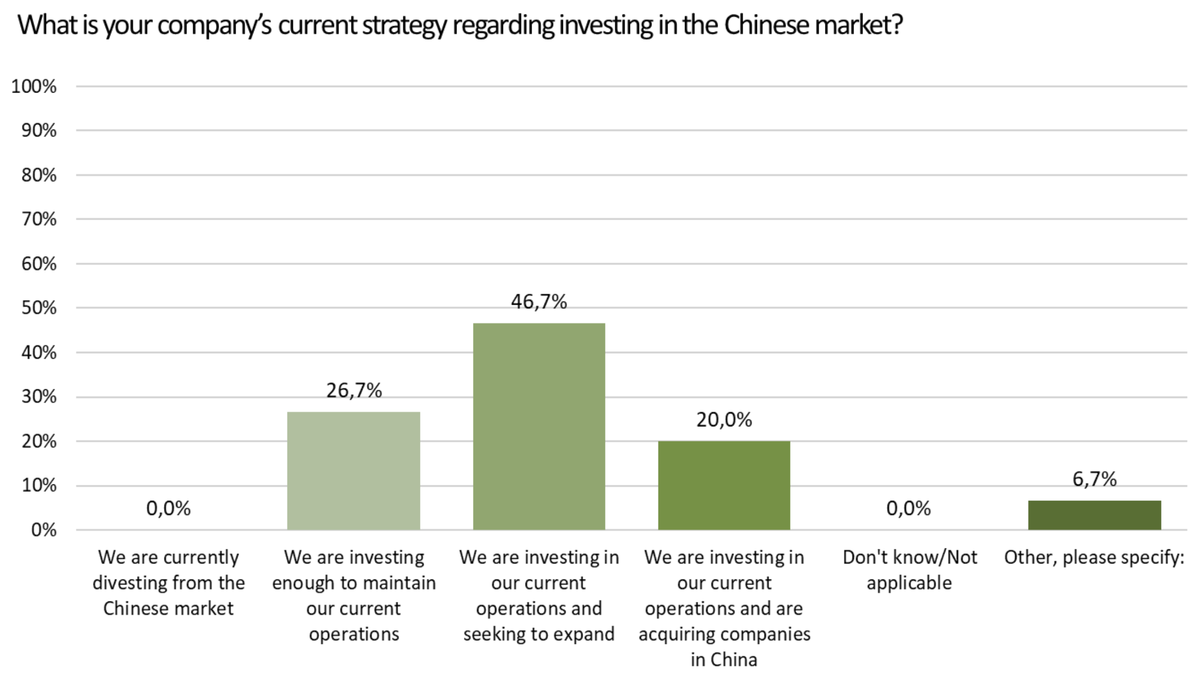


*Fig. 1*: Current investment plans amongst surveyed Swedish MNCs in the Chinese market.

### 6.2 Reasons for Continued Investments

Despite an increase in costs of operations, geopolitical uncertainties, and tougher competition both from local and foreign companies, Swedish MNCs are continuing to invest and grow in the Chinese market. Although the reported local business climate is the worst it’s been for at least a decade according to this year’s Business Climate Survey (BCS) from Team Sweden China, there are clearly factors that not only retain Swedish companies in this market, but also make them want to continue growing[17][18]. The graph below gives an indication of some of the primary reasons for continued investments in China.

[18] Business Climate Survey for Swedish Companies in China 2024, page 5. Team Sweden in Mainland China. https://www.swedcham.cn/business-climate-survey

What is the importance of the following factors for why your company intends to remain in the Chinese market?

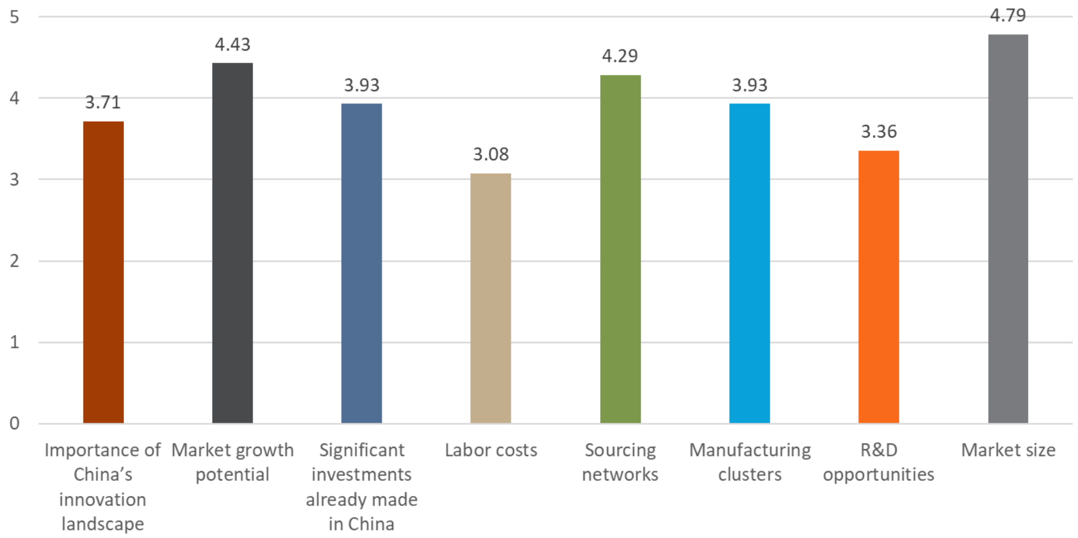


*Fig. 2:* Ranking of various factors companies identified as reasons for remaining in the Chinese market, with 1 = No Importance, 3 = Medium Importance, 5 = High Importance.

The sheer market size of China coupled with its steady growth rate were chosen as the most attractive factors. Behind those factors were listed sourcing networks, manufacturing clusters, and significant investments already made into China as factors of most significant importance.

According to all three companies interviewed in China, a key reason to continue investing and growing in China is to keep up with the rapid developments that take place in the Chinese market in terms of innovation and competition. This is reflected in *Fig. 2*, with the factor "importance of China's innovation landscape" being rated a 3.71 in importance. During our interview with AQ Group, they also mentioned the importance of being fully committed to the Chinese market to keep up with the trends and R&D efforts of Chinese competitors. China is a key market for innovation and manufacturing, and to take full advantage of the Chinese R&D ecosystem, AQ Group argues that companies need to approach the market with a high degree of commitment. China 2 also spoke about the need of being tapped into the Chinese innovation landscape. In their experience, not being present in China means missing out on crucial new trends and developments.

Another aspect China 2 also mentioned during the interview is the essentially unbeatable efficiency and speed of the Chinese market and Chinese suppliers. The point is that the industrial infrastructure and supply chain networks of China are very hard for other countries to match.

For China 3, the Chinese market remains important not just as an important market to be present in, but as an important facet of their global supply chain, primarily due to the consistent quality and on-time delivery provided by their Chinese partners, highlighting that "we do not intend to break with our Chinese suppliers" (China 3). In their experience, suppliers are constantly fighting to please their customers and always working to improve their technology. This attitude and the long-standing collaboration with their suppliers remain strong factors for why they are remaining in the market. China 3 also believes that the footprint of Chinese suppliers will continue to grow internationally, which will further enhance the competitive advantage of their logistics and service.

### 6.3 Zero Derisking Viable Path for Some Companies

Based on the survey results, at the current moment a majority of Swedish MNCs do not appear to have taken any major steps to derisk or exit from the Chinese market, as can be seen in *Fig. 3*.

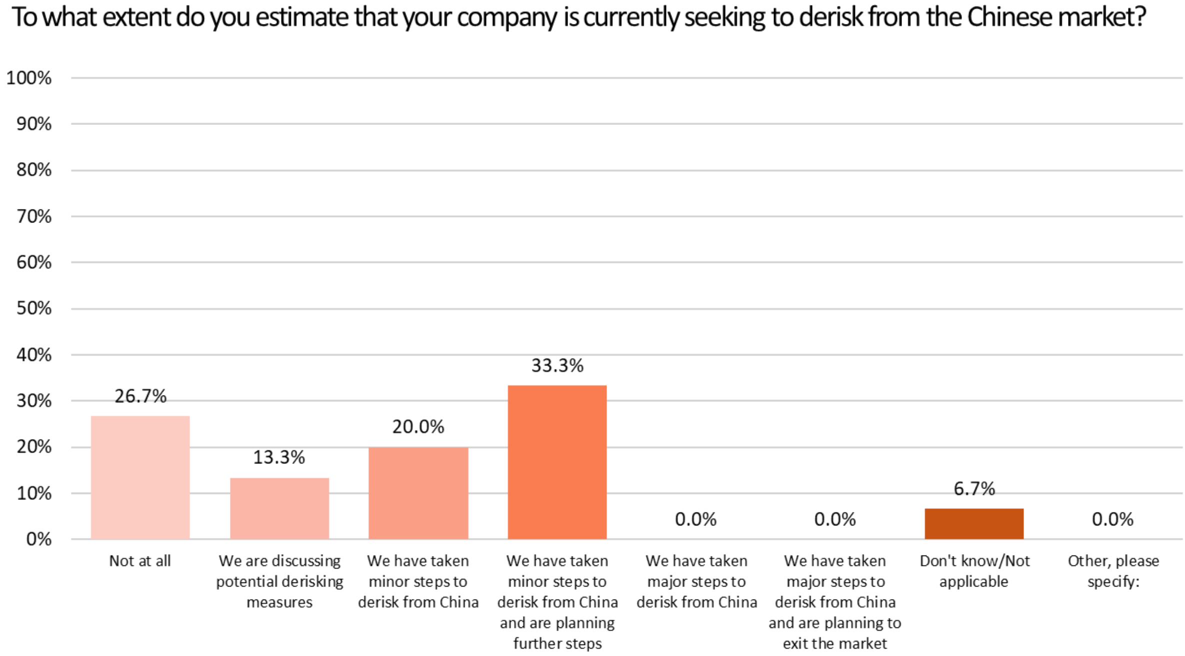


*Fig. 3*: Overall *current* sentiment towards derisking from the Chinese market.

Approximately 25 percent of respondent stated that they have not taken any actions or made any plans to derisk from China at the current time. In the survey, they all primarily highlighted the continued importance of the Chinese market, and that they simply do not perceive any risks associated with the Chinese market that are significant enough to take any derisking actions.

A Swedish container manufacturing company in China wrote the following when answering the survey:

*1. China is the biggest market with huge potentials without any alternatives in the global.*

*2. China is the best supply chain base globally for raw materials not only for the existing materials but also for the new-requested materials for our R&D innovations.*

*3. China has the best cost talents and labours to support not only China but also the rest of global.*

*4. China is the most active in innovations.*

While no surveyed companies are looking to take major derisking steps or to fully exit the Chinese market, about 70 percent did report that their company had either already taken some measures to derisk or were discussing potential measures. However, companies took varying approaches that mostly fell into the definition of minor derisking efforts. Some reported that they had only updated their contingency plans or were working on back-ups to Chinese suppliers due to geopolitical developments.

*The Chinese market is very important to us and we're considering China-for-China strategies to ensure we're still maintaining and gaining market share. De-risking is more a mitigation action to improve supply chain resilience from both sides. On the contrary, we're hurt by de-risking concern from our Chinese customer and losing business opportunities due to this.* – Swedish industrial MNC

A Swedish industrial company wrote that they had previously worked with the strategy of adding further capacity and developing supply chains in China to better serve the global market. Following the development of geopolitical uncertainties, they have now switched their strategy to a China-for-China approach, where the development of production and supply chains in China is mainly for the purpose of serving the Chinese market. As stated earlier, the China-for-China strategy is one way of insulating a company's operations in China from the rest of their global business, and thus limit the exposure to China-specific risks. Multiple companies also reported that they were looking to create joint ventures with local partners. This appears to be an approach that surveyed companies themselves consider to be a typical minor or moderate derisking effort.

The following graph, *Fig. 4* can arguably be related to the China-for-China strategic trend:

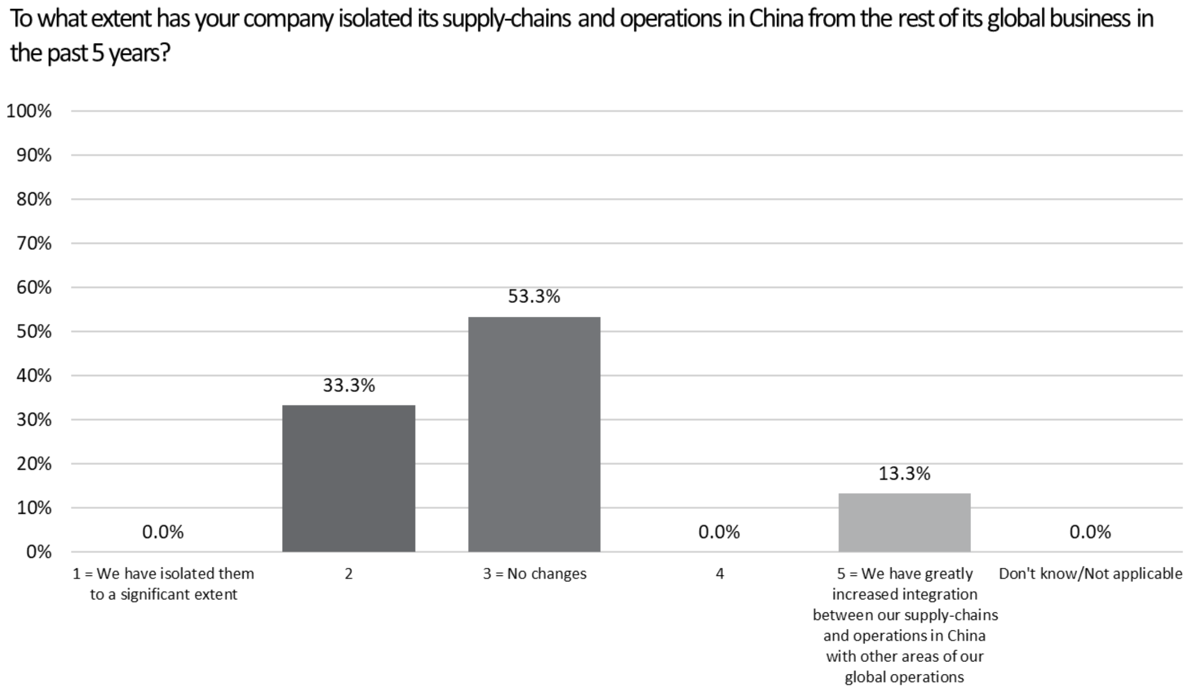


*Fig. 4*: Depicting how companies have isolated supply chains in China from global operations.

About half of respondents have not made any alterations to their supply chains in this regard, and only 13 percent report a great increase in the integration of their Chinese supply chains and operations with the rest of their global supply chains and operations. The graph also shows that 33 percent of companies responded that they have isolated their supply chains and operations in China to an extent, which may reflect the trend of moving toward a China-for-China strategy.

One of the companies that claimed to have isolated supply chains to a "moderate extent" wrote that it was primarily to reduce dependency on *any* one country. In the same process they have also pursued a strategy of increasing R&D capabilities in China, to better be able to serve the Chinese market. Another company reported a similar rationale, but also highlighted that the new China-for-China strategy differed in their various business areas:

> *We're operating in a decentralized way and different business area is having different strategy. Some is moving the assembling centre to low-risk countries in the region, and some is doing China-for-China plan.* – Swedish metal industry company in China.

Just as there does not exist only one singular approach toward derisking, companies also do not necessarily need a company-wide strategy regarding derisking and exposure to individual markets, as shown in the case above.

The survey found that 13 percent had increased the integration of their China supply chains and operations with their global business over the past 5 years. The reasoning for this further integration was the advantage China still retains in its supply chains in terms of their quality and cost:

> *We developed more and more Chinese suppliers to supply to our global productions due to the advantages, such as more cost effectiveness, quality control, broader supply bases for materials and technologies, much quicker response and much more flexible to the business request.* – China 3

Making a similar point, a Swedish technology manufacturing company wrote that they had found more suppliers in China suiting their supply chain with better cost and quality.

Despite the increased prevalence of China-for-China strategies, the importance of the Chinese market in terms of sourcing strategies has generally increased or remained unchanged, as seen in *Fig. 5.*

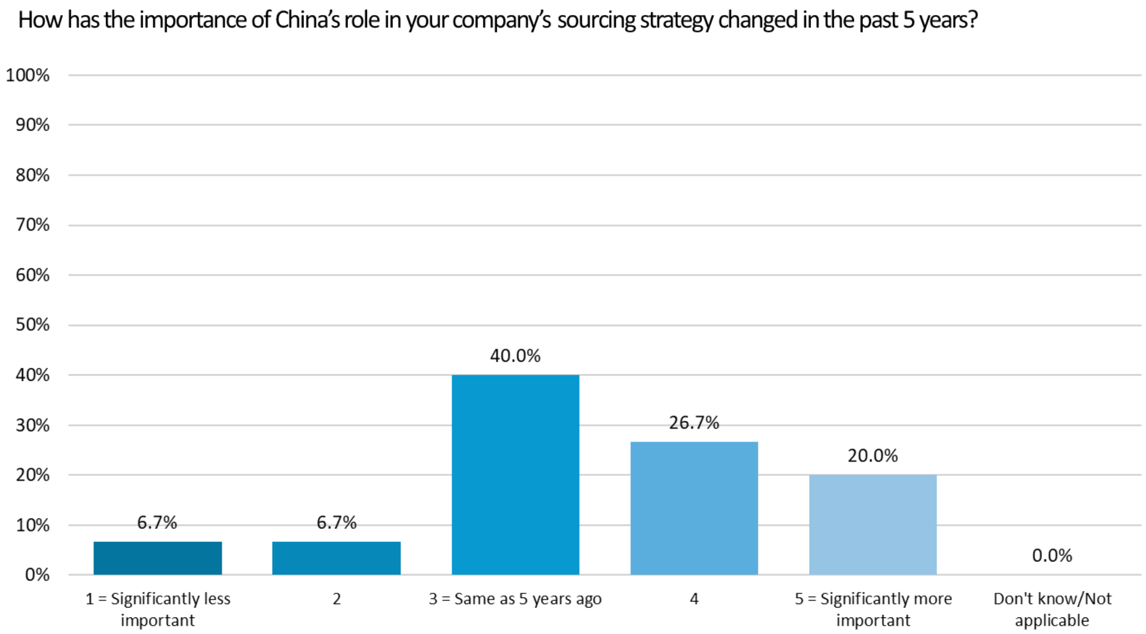


*Fig. 5:* The development of China's role in the company's sourcing strategy in the past 5 years.

## 6.4 Uncertainties and Challenges

Geopolitical concerns was listed as the most impactful factor regarding negatively affecting their company's willingness to expand and invest in China, as seen in *Fig. 6*. However, despite geopolitical uncertainty being ranked as the most impactful factor regarding unwillingness to invest in China, only about 27 percent of respondents said that geopolitical developments have had a high or very high impact on their APAC strategies over the past 5 years, as seen in *Fig. 7*.

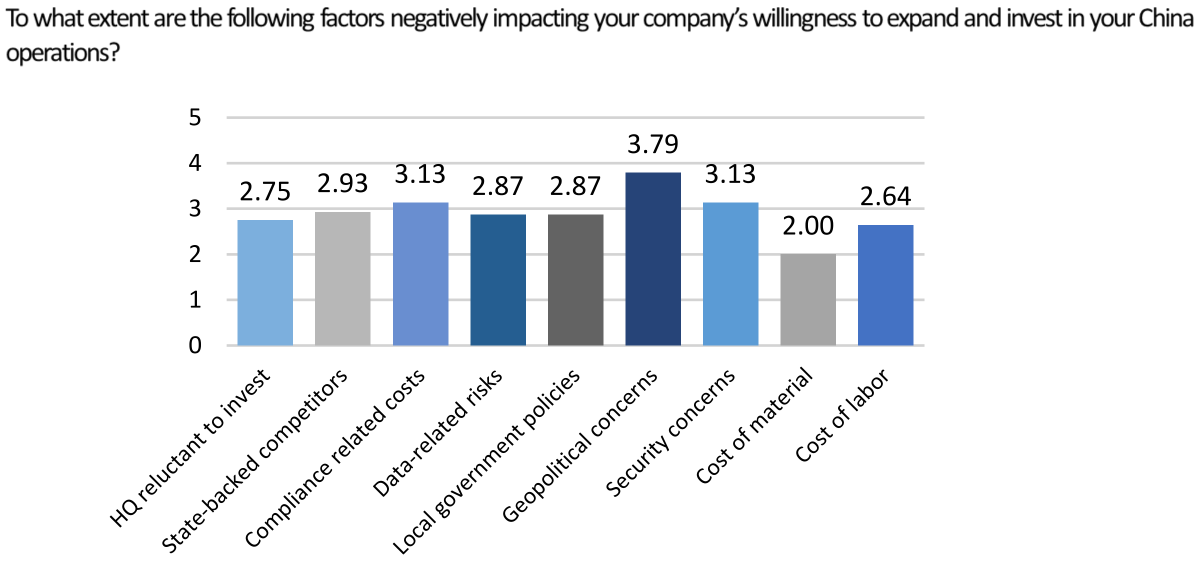


*Fig. 6*: Ranking of various factors companies identified as reasons for decreasing investments in the Chinese market, with 1 = No Importance, 3 = Medium Importance, 5 = High Importance.

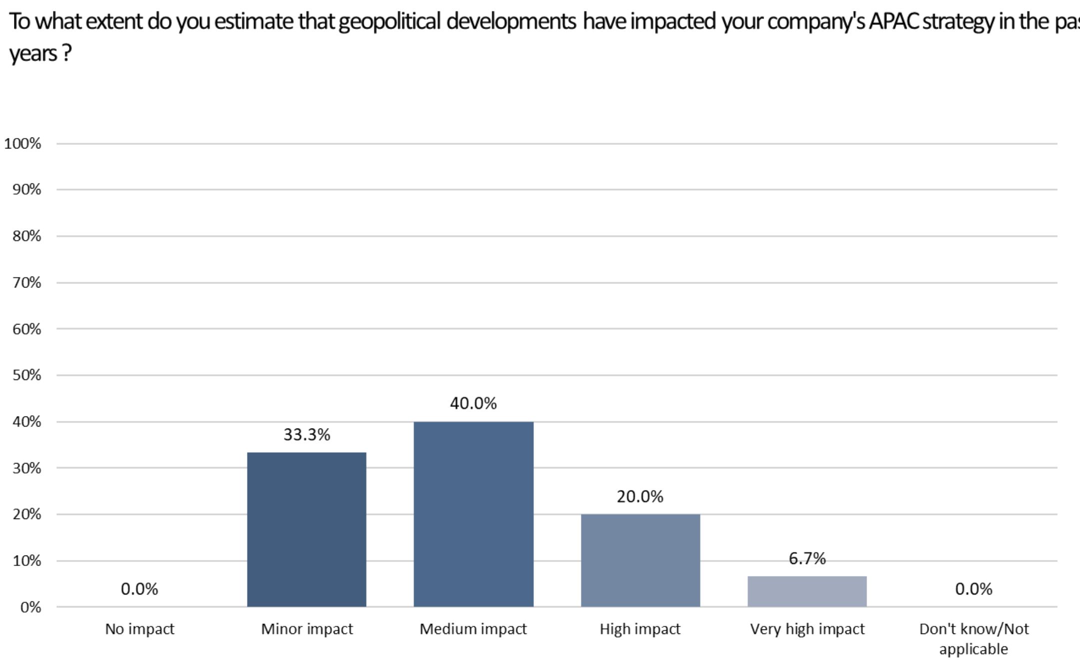


*Fig. 7:* Impact of geopolitical developments on APAC strategy, from a Swedish MNC in China's perspective.

When asked about their companies had altered their APAC strategy due to geopolitical tensions in the past 5 years, the respondent companies gave different answers; one company focused on the importance of diversifying as a method of derisking, writing that it is crucial to ensure that you have a back-up of all sourcing, other companies wrote that geopolitical risks motivated them to expand in other countries in the APAC region.

> *Geopolitics has led to further footprint investments in the region. We now have increased the footprint in both China and India to secure the market position in each market and minimise risks of trade barriers between the two. We have also increased the screening related to project orders to mitigate risks of supply from Chinese entities into Russian projects.* – Swedish MNC in the metal industry

For China 3, there are other important reasons apart from geopolitical uncertainties that currently cause them to be cautious regarding investing in China, with the main factors mentioned being the current economic slowdown and the financial situation of their customers in China. Another issue is the increased overhead costs, with fixed costs and labour costs having risen quite rapidly over the past decade in comparison to India or east Europe. The current financial situation in China is a cause for concern for many companies, both Chinese and foreign.

### 6.5 Disparate Views of China Between China Offices and HQ

One fact that may reducing companies' willingness to invest in China is a degree of disparity between those who are working in China and those who are back at HQ regarding the risks and benefits of the Chinese market. This is something which was also clearly reflected in all interviews with the China offices of the Swedish MNCs who we talked to for this report.

China 2 explained that an important task as a leader based in China for a Swedish MNC is to balance the perception of China in Sweden/Europe with the reality on the ground. Geopolitical challenges and legislations between EU and China make HQ more reluctant to commit future investments.

China 3 highlighted the importance of maintaining close and careful communication with headquarters and local offices to reduce miscommunication regarding potential risks and costs in China. For them, communicating a clear and realistic image of the Chinese market to their headquarters is a high priority. They also believe that in order to help HQ get more visibility of China, the local management should ask them to pay more visits to China to arrange face-to-face dialogues with local teams, employees, customers, partners, and relevant authorities.

The interviewee from AQ Group stated that in his experience is people based in Sweden tend to be more cautious regarding investing in China compared to those foreigners who work in China. According to him, this can largely be attributed to changes in China's internal and external policies; in his view, the Chinese business landscape has gradually become less open during the past ten years, and the way of doing business in China has becomes less western-influenced. This trend was accelerated by the effects of Covid-19 and lockdowns, making many Swedes careful and reluctant. AQ Group are working toward closing the perception gap between their own China office and headquarters, they are actively trying to "make sure that people come and see everything with their own eyes" (AQ Group).

### 6.6 Can India be a Complement or a Substitute?

*Fig. 8* shows that for most surveyed companies, the Chinese and Indian markets are complementary rather than supplementary. Multiple respondents argued that many benefits of the Chinese market are difficult to find in other countries.

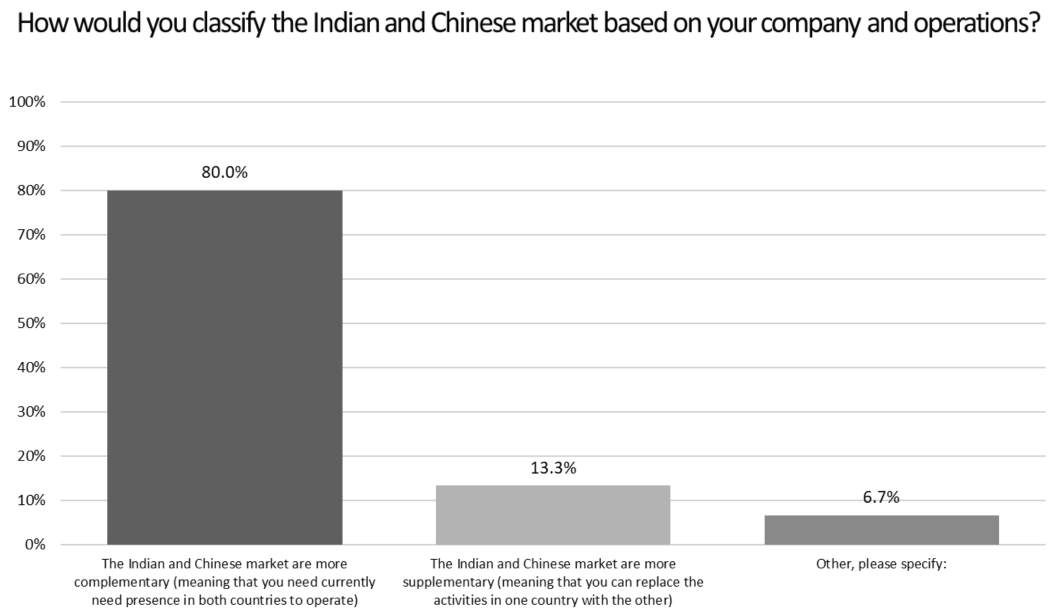


*Fig. 8*: Share of companies viewing China and India as compliments or substitutes.

> *China can supply all materials we need with the best price and best stable quality, rather than other country. China has the most developed and comprehensive supply chain, especially for the production equipment and the processing*. – Swedish manufacturing company.

Other companies will continue following a China-for-China strategy, which also means that they are not looking to the Indian market to replace any of their Chinese operations. AQ Group observes this in the strategic decision-making of many of their clients: their "strategy have always been to produce close to our customers, so China is mainly for China". Most respondents agreed that China and India are complimentary, explaining that the two markets have different strengths and are not particularly interchangeable. China 2 noted that the "Indian manufacturers and suppliers are good at other product and material types compared to China. The production capabilities are different, not an apple-to-apple comparison."

So, are companies looking to India to complement their business in China? Around a third of surveyed companies are looking to the Indian market to replace or complement some of their operations in China, with less than half responding that they are not looking to the Indian market to replace or complement any of their operations in China. The only company that represented a clear desire to move capabilities from China to India was a Swedish company in the metal industry.

An industrial company mentioned in the survey that India might become a more important manufacturing base, and that "for certain products we have similar facilities in India and China, and as such can be interchanged partially, however, the China capacity is much bigger and covers 70 percent all products." The interviewee from AQ Group, who has also previously worked in India, mentioned that there is a greater sense of commitment to agreed-upon deadlines when dealing with Chinese partners, and that the Chinese are more often willing to pay a higher premium for a superior-quality product. The current reasoning among the respondent companies appears mainly to be that the Indian market is not ready to replace the functions of the Chinese market.

**6.7 Diversifying and Expanding in APAC**

While China remains an important market for sourcing and investment, many Swedish companies are currently looking to other countries in the APAC region for diversification and new investments outside of China. *Fig. 9* shows where in the APAC region the respondents of the survey in China are looking to expand or make new investments.

> *I would say that all supply chains need to look at balancing risks and geographical footprint. The key is to have a diverse supplier base that can cater to the customer offer at any point in time. Be it war, covid, logistic challenges etc - a company must be able to have ready alternatives for its sourcing. We are securing such global supply chain portfolio*. – China 2

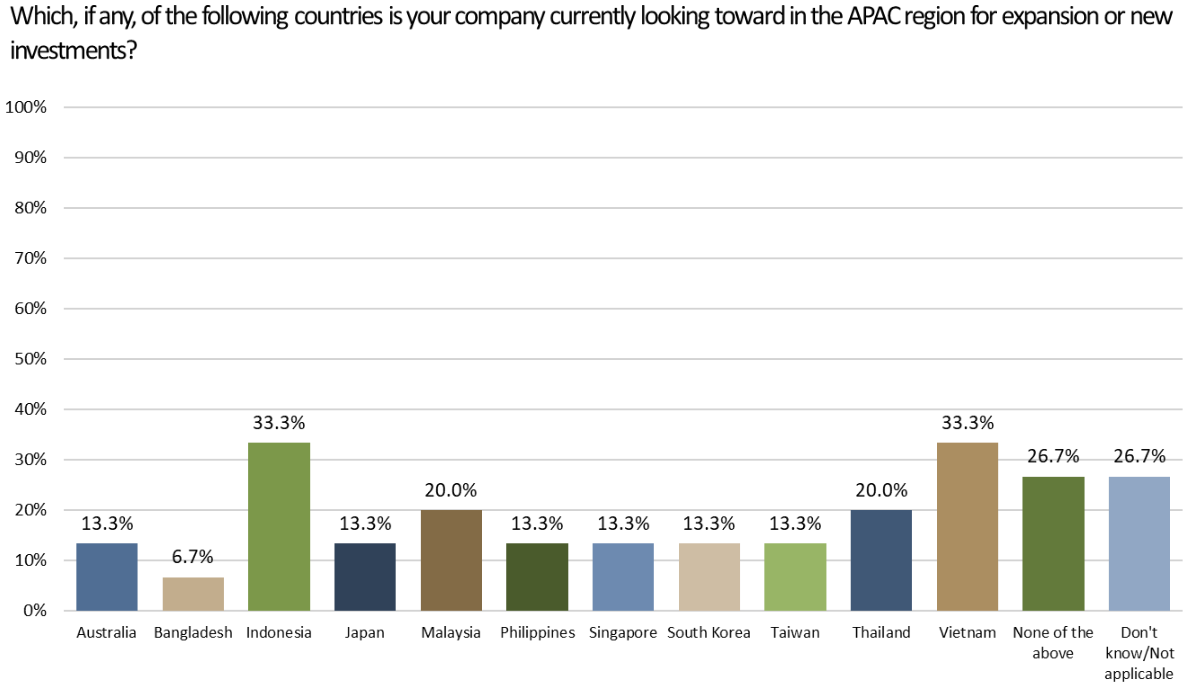


*Fig. 9*: Where are Swedish companies in China looking to expand or invest in the APAC region?

Derisking from any country means securing diverse supply chain and operations across countries. Together with its Chinese partners, China 2 explains that, some production from China has migrated to other countries in recent year.

While production costs in China have increased, countries in the APAC region have begun catching up in terms of their production capabilities and quality. This has resulted in some production moving from China while maintaining same product offering.

China 2 also aims toward a diversification of their supply chain to reduce risk generally. This is not a China-matter. The experience from Covid-19 and the effects it had on their production capacities and supply chains was a wake-up call for them. It made them realize the need for increased agility in their supply chain to counter sudden and unpredictable changes, such as being unable to ship out products, or factory workers not being able to leave their homes. They understood that they had to increase their prioritization of resilience, and that they needed constant plan B's and a capacity to readjust to unexpected circumstances.

The third factor mentioned by China 2 is the geopolitical risk including trade barriers and tariffs, specifically to the US market. "Our Chinese partners have diversified their business across markets for decades, and we see this trend continuing" (China 2). Multiple companies wrote that they are mainly looking to these regions for making new acquisitions or to hire local representatives to support sales or future business. For some other companies, expanding in the region is a method of "regionalization," which focuses on agility and meeting local customer's needs.

# 7. Results India

### 7.1 A Growing Market

As seen from *Fig. 10*, 63 percent of all respondents in India claimed that the business climate has become “more favourable,” or “significantly more favourable,” in the past 5 years. India 2 pointed out the notable increase in delegation visits coming from Sweden and that “for the first time ever, our annual board meeting will be conducted in India.” India 1 mentioned that they were also taking major steps in countries such as Bangladesh, Vietnam and Malaysia, but that “none of these are comparable with India, which has the size and growing middle-class speaking for it, making it better than any other option” (India 1).

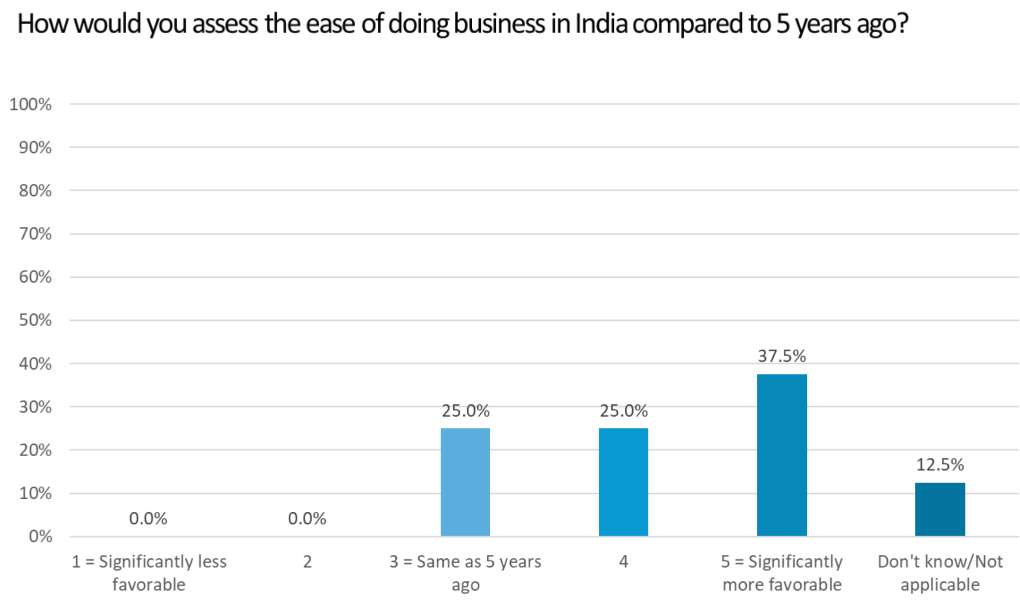


*Fig. 10*: The ease of doing business in India over the last 5 years.

Around half of the respondents are taking “major steps” to make India one of their main bases in APAC. An example being that “in 2011 we took a great leap to leverage India’s strength, alongside other countries in APAC, but in recent years, the major growth-focus in on India” (India 2). Again, the main motivation has been size and population, and as a result, 75 percent of the asked companies are increasing their investments in India.

However, only 29 percent claimed that this increased focus on India can be linked to a decrease in Chinese operations. During interviews, political motivations were, at most, secondary to the population growth and vast size of the Indian market. Half the respondent (43 percent) added that geopolitical tensions affected their operations, but that “politics will not be any game changer, there are other factors behind our focus on India, since the 90s reform we have looked towards it.” (India 2)

### 7.2 India is not Ready to Replace China

All interviewees stated that India is not ready to take on the same scale of operations as China, “India still has a long way to go, in terms of competence, development and industrialization, I would say that they are 10-15 years behind China,” yet the interviewee claims that eventually “India will catch up, with the clarity from the political system, which would change up the rules” (India 1).

Infrastructure and mainly roads and ports “are not ready to catch up with China – and not to mention the bureaucracy and the compliance risks that makes it rather hard to operate in India as a foreigner” (India 1). It was also mentioned that “there is a need for connected supply chains, and India is not ready to be independent; our supply chain is dependent on China and will be for a few more years – we also need Indonesia and Vietnam for wood sourcing that – unlike in China – cannot be performed here. The supply chain in India is disconnected” (India 2).

**7.3 Trade is Trade, Politics is Politics**

Despite most companies agreeing that the increased focus on India has not primarily been due to a slow-down in China, geopolitics did have an impact on most companies’ business decisions. However, this came in the form of “catering for India in India and focusing on separating supply chains, which is a strong recent trend” (India 3). The impact of recent waves of securitization has been noticeable, and companies stated that they are focusing on decreasing the dependence on *all* countries to protect against supply chain problems and ensure that operations can continue despite trade wars and pandemics, not focusing on a specific country due to political reasons.

Until recently, India 3 received large quantities of products from China, but because of pressures to safeguard national interests, that number decreased significantly. It became necessary to supply locally from India and be closer to the market, “our supply chains are very much interlinked today, there are things we do not have the capability to do here,” (India 3) which made them invest more in India.

“These decisions are purely economic and business-focused, not because we want to avoid a specific country” (India 1), interviewed companies stated that investment decisions were made based on market growth and pressures to localise supply chains, rather than politics and disputes with a specific country. India 2 mentioned that “one should not intertwine politics with trade, unless a war breaks out.”

Only one company stated that de-risking from China specifically had an impact on their India strategy. India 1 provided an example of how geopolitics affected their global sourcing strategy, but with pressures coming from North America, “the political tensions with China have not escalated our increased investments in India, but we are indirectly affected by this in the North American market. We need to penetrate North America, and by being with China, we cannot do that” (India 1).

**7.4 Operations in China has a Moderate Impact**

Results from the survey indicates that operations in China have a moderate impact in India, as seen from *Fig. 11*, 43 percent claiming that it is not the main driving force. Both China and India are key markets to all three interviewed companies, “both are key growth markets for us. We have a clear strategy on how to grow in these two markets, which is to separate supply chains and focus on one country each” (India 2). They stated that both countries are crucial for their supply in Asia, and long-term growth was made possible by combining operations in China and India.

To what extent do you estimate that recent investments in India can be attributed to a reduction in operations in China?

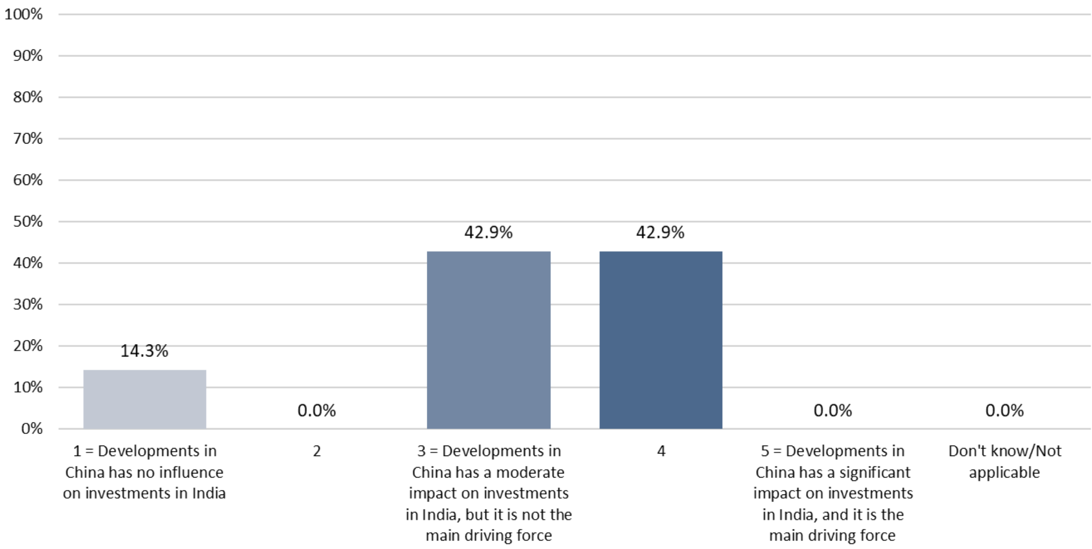


*Fig. 11*: The perceived connection between investments in India and a reduction of business in China.

India 3 explained that they "have not seen any slowdown in the Chinese market, our office there is growing, and we are expanding in the market," they added that "the increased focus on India has not been due to a slow-down in China" (India 3). However, the geopolitical situation did affect operations in the following way: China "the situation with China showed that no company should have too interlinked supply chains, so as a response, we are trying to cater for India in India, and cater for China in China" (India 3).

*Fig. 12* shows that 63 percent viewed China and India as complementary, meaning that they see benefits from operating in both simultaneously, while 13 percent stated that the two countries are supplementary and replaceable with each other. The answer to this question differed across industries; interviewed B2C-companies viewed China and India as complements, arguing that the customer demand and overall operations in the two countries were inherently different, preventing them from replacing one market with another. The production company, on the other hand, argued that there were some synergies across India and China that they could leverage on, stating that their operations in China and India shared similarities. "The countries are so different for us; one cannot substitute the other. We need capabilities invested in markets with growth opportunities, without supply chains that are too interlinked. That is our APAC strategy in the last 2 years" (India 3).

How would you classify the Indian and Chinese market based on your company and operations?

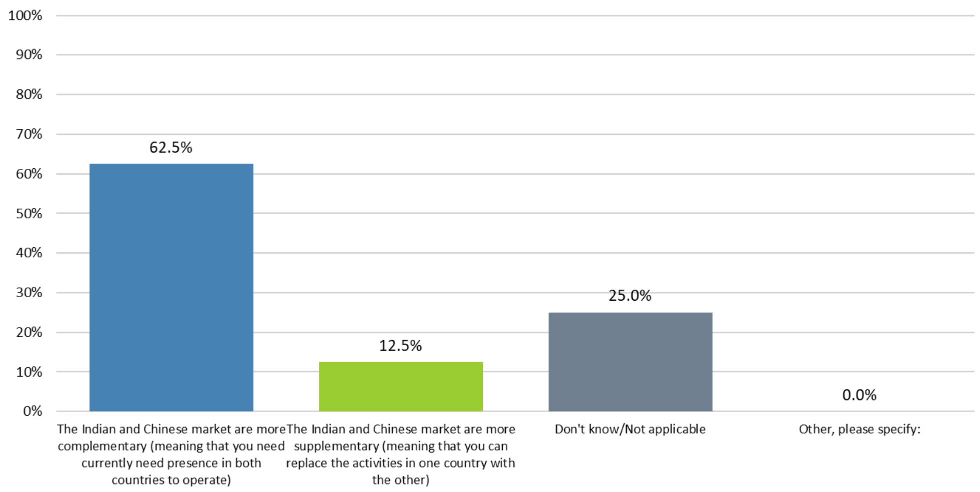


*Fig. 12*: Share of companies viewing China and India as compliments or substitutes.

# 8. Discussion

### 8.1 China and India as Complements

Using *Fig. 8* and *Fig. 12*, one can draw a tentative conclusion that the Indian and Chinese markets are not interchangeable for the purposes of most Swedish MNCs. The results showed that 63 percent (India survey) and 80 (China survey) percent of surveyed companies viewed both markets as being complementary and not interchangeable, and there was little interest expressed in exchanging one market for the other.

Respondent companies indicated that their main priority is to stay where they make profit, and that they are being cautious about how much they permit politics to influence and interfere with their supply chain decisions. If both countries are profitable and retain other benefits, Swedish MNCs will likely continue investing in both markets, not feeling pressures to choose one over the other. The sizeable presence most Swedish MNCs already have in the Chinese market makes it seemingly that those companies will looking for an all-out replacement any time soon, barring extreme events that drastically reconfigure global trade.

In those cases where a company spoke of reducing their activity in one of the two countries, it did not appear to have a direct link with an increased focus on the other. For example, investment plans for India were on the tables long before de-risking trends began in 2023; India 1 pointed out that talks began already in 2016. The demand, capacity and opportunities in China and India are currently too different to be interchangeable. However, results indicate that this might change in the future once India can provide fully integrated supply chains, as the operation in each country is becoming more self-contained. For B2B and manufacturing companies, this step might be somewhat closer in time, as synergies in production are already being explored between China and India; the two countries are learning from each other, and if India achieves the type of economic and infrastructural advancements that it aspires toward, it may become a market that can act as a potential replacement for more Swedish MNCs than currently. B2C companies, on the other hand, are facing two highly different consumer markets, requiring different strategies and product offerings.

A recurring theme seen in the results section for China is that the Chinese market remains unmatched in terms of the manufacturing clusters and supply networks that it offers, together with a highly developed infrastructure, enormous market, and steady growth. These and other factors seem to be sufficiently strong to make Swedish MNCs continue investing and building a presence in China for the foreseeable future, even if the focus may turn more toward a China-for-China strategy for some companies. The Indian market is not ready to replace the Chinese market to any significant extent for most Swedish MNCs surveyed, and the two markets are currently treated primarily as complements by the respondent companies.

### 8.2 China for China, India for India

There is a huge recent trend of localization that is encouraging Swedish companies to reconfigure supply chains and focusing on their overall resilience. This desire to reduce the interdependence of various markets for companies supply chains can be linked to events and incentives that have taken place over the last few years, such as the supply chain disruptions caused by the Covid-19 pandemic and war in Ukraine. As a result, Swedish MNCs are diversifying and localizing simultaneously. Ensuring supply chain continuity and resilience via localization is a way for companies to guard themselves against unpredictable eventualities, which appears to be a trend that will continue in the coming years. Today, the surveyed companies are focusing on being close to their customers, which is one of the main reasons behind the recent talks of restructuring supply chains in the APAC region.

India 3 pointed out that their business model is focused on "being close to the customer," each office should cater for their own market, which has motivated their growing investments in India. The Indian market is growing, and companies need to build independent supply chains that can supply the growing demand, not relying on any other country. Similar views were observed in China, where companies aim to use their China operations to service the Chinese market and strive to guard themselves against potential difficulties from overly complicated supply chains stretching over too many regions.

**8.3 Safety First**

The above leads us unto another main theme uncovered during interviews. Namely that the trends of localizing supply chains and securitizing trade has not much to do with geopolitics and tensions, but more to do with recent conflicts and the pandemic. Of course, some of these could be classified as geopolitical reasons, but they are less about "China is risky," and more about how the world is becoming increasingly uncertain. There is a pressure to safeguard operations and ensure that supply chains can provide for their market domestically, without relying too much on one other country.

However, a notable difference across the countries is that respondents of the China survey viewed geopolitical developments as a negative factor for their company's willingness to invest and expand, while in India, the surveyed companies viewed geopolitics as a rather unimportant factor for future investment plans. Apart from that, most investment decisions were fueled by economic decisions and overall market attractivity outlooks. They stay in the markets that are profitable, and for the surveyed companies, this includes both China and India, for different reasons and different benefits.

**8.4 Limitations and Considerations**

The scope of this study focuses on two countries: India and China. It only briefly touches upon other de-risking strategies between countries such as China and Vietnam, or China and Indonesia; to gain a better understanding of these relationships, a more thorough study must be conducted with more involved countries,

The sample size consists of 6 interviews and 23 survey responses. A larger sample would be beneficial for the scope and reliability of the study, however, due to the vigorous selection process that only allowed for large Swedish enterprises in both markets, and who are members in the Swedish Chambers, the potential sample size was narrowed. Authors prioritised quality before quantity during data collection, to target the right companies that could provide insightful and relevant data for the research question.

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# 10. Appendix 1 – Information About the Interviewed Companies

- China 1, AQ Group: Manufacturing custom products for their customers in different regions (B2B). Interviewee has over 20 years of experience of working for Swedish companies in China.
- China 2: Large Swedish MNC that works with contractors globally.
- China 3: Manufacturing company in the rail industry.

- India 1: Manufacturing custom products for industrial players (B2B). Interviewee was head of operations in Southeast Asia.
- India 2: Retailing within home furnishing (mainly B2C but also B2B). Interviewee had worked in both India and China with supply chains.
- India 3: Manufacturing high-tech tools and equipment in sectors such as aircraft, mining and engineering (B2B).

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