India China Trade and Investment

A Road Map for Growth and Employment in India's Manufacturing Sector

Mona Dikshit
Senior Visiting Fellow, RGICS, New Delhi

RAJIV GANDHI
INSTITUTE FOR CONTEMPORARY STUDIES

Author

Mona Dikshit, Senior Visiting Fellow
Rajiv Gandhi Institute for Contemporary Studies, New Delhi

Review and Editing

Mr Vijay Mahajan, Director
Rajiv Gandhi Institute for Contemporary Studies, New Delhi

Mona Dikshit, Senior Visiting Fellow
Rajiv Gandhi Institute for Contemporary Studies, New Delhi

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Foreword

The Rajiv Gandhi Institute for Contemporary Studies (RGICS) is an independent national policy think tank promoted by the Rajiv Gandhi Foundation. The RGICS carries out research and policy development on contemporary challenges facing India. RGICS currently undertakes research studies on the following five themes of general public utility including:

a. Constitutional Values and Democratic Institutions
b. Growth with Employment
c. Governance and Development
d. Environment, Natural Resources and Sustainability
e. India's Place in the World

The work on India-China Trade and Investment research began eighteen months ago when it was observed that India's trade deficit with China was nearly USD 63 billion out of a total trade of USD 87 billion. Since then, due to reduction in imports and increase in exports, the deficit has come down to USD 53.5 billion. This is remarkable progress in one year.

At the same time, Indian MSMEs were widely complaining about the lack of a conducive manufacturing eco-system and their inability to compete with the cheaper Chinese manufactured goods, which were being lapped up by Indian consumers. There were also some concerns on the increasing Chinese presence in the Indian digital and telecom sector. On their side, the Chinese cited a number of Indian foreign investment and visa regulations which made it hard for the Chinese manufacturers to establish factories in India.

At the time this Report was being finalized, the COVID-19 pandemic broke out. With the economic and geo-political fallout, it is difficult to predict how the India-China engagement will play out after the crisis. However, the long term need to grow India's manufacturing sector and employment, and the need to balance the trade deficit with China remains.

Ms Mona Dikshit, Senior Fellow, RGICS led the year-long research and writing on this topic and we are grateful to her as well as her numerous discussants.

We hope the paper is found useful by policy makers in foreign policy, trade & investment, industry, exporters, investors, as well as scholars in this field.

Vijay Mahajan, Director,
Rajiv Gandhi Institute for Contemporary Studies (RGICS)

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Mr Vijay Mahajan, the Director of RGICS provided support at every crucial stage of the study and helped the author develop the framework through which to handle the enormous amount of information which came both from the published sources as well from meetings and interviews.

We collaborated with Mr. Mohammed Saqib, Secretary General, India China Economic and Cultural Council and Mr. Arun Goyal, Director, Academy of Business Studies. Mr. Saqib's deep knowledge and experience on India-China economic relations and his help in connecting us with a number of Chinese representatives and experts working in or visiting India, gave an opportunity to get first-hand account of Chinese interests and expectations. Mr. Arun Goyal provided expert insights on policies related to the manufacturing industry, sectoral issues and international trade policy.

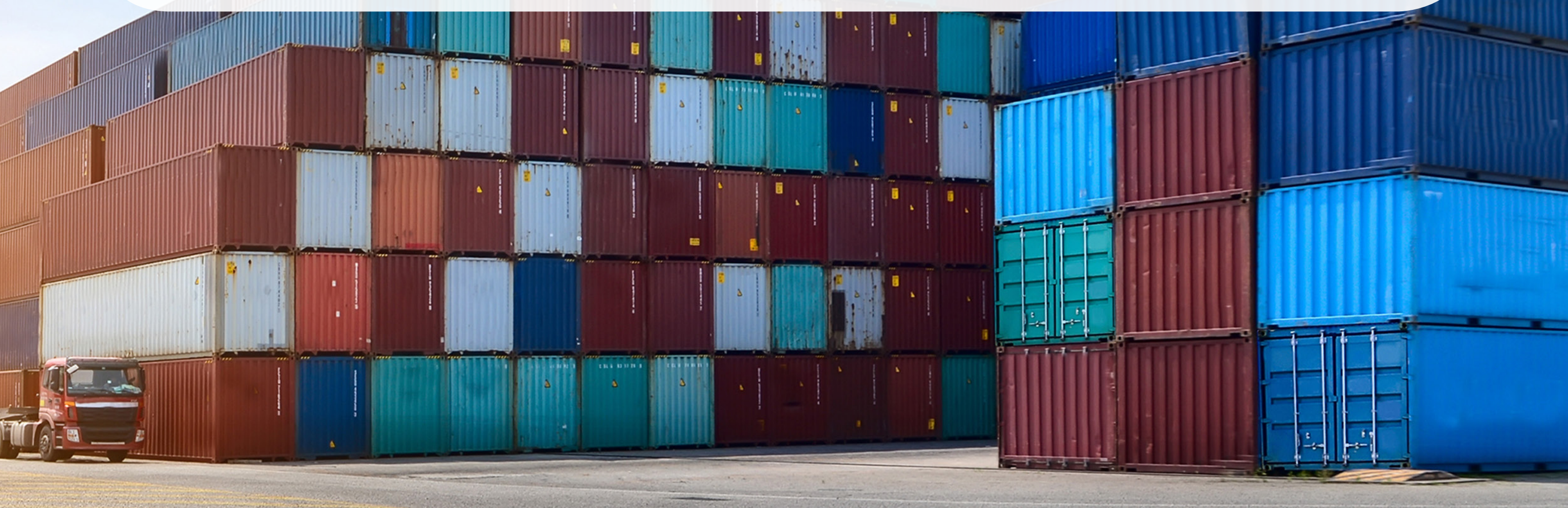
Mr. Jagmeet Singh, Research Associate, RGICS assisted with data research and analysis.

We met a number of people in industry, Industry Associations, Central Government and State Governments officers (Gujarat, Madhya Pradesh, Rajasthan) who we would like to thank for their time and policy practice insights.

A special acknowledgement and thanks to the representatives of CASME: Mr. Yin Weidong 'Shah' and Mr. Daniel Yuan with whom we had several rounds of meetings and discussions. Their knowledge and experience about Chinese industry and investment efforts in India has enriched this Report.

Apart from discussions with Mr. Manoj Kewalramani (China Centre, Takshila Policy Institute, Bengaluru), Mr. Vinod Sharma (CII National Committee on ICTE and MD Deki Electronics), Mr. Divay Pranav (Sr. AVP, Invest India), Mr. Anil Bhardwaj, Secretary General (FISME) and Retd. Ambassador Bambawale; we found it worth incorporating extracts from some of their writings in this Report. We acknowledge the same with thanks.

Mona Dikshit, Senior Fellow, RGICS
New Delhi, March 2020



EXECUTIVE SUMMARY

India-China Trade and Investment: A Roadmap for Growth and Employment in India's Manufacturing Sector

This Research analyses India-China Trade and Investment from both the demand side and supply side. On the demand side, India wants to augment investment in its manufacturing sector for generating growth with employment; on the supply side there is a strong economic rationale for China to trade and invest in India.

This Report was being finalized during the time that the COVID-19 pandemic broke out. Since March 2020, the sentiment against China has hardened. Thus suggestions of any type of heighted collaboration with China are received with skepticism. This is not the first time we have faced this. For example, earlier with the Doklam border crisis, there was a rise in tensions and fall in investments, which turned out to be temporary. Since then, major investments such as the Industrial Parks in Gujarat were cleared and a lot more Chinese funds invested in Indian ventures. Even recently, India has imported medical equipment, masks and PPE from China to deal with the COVID crisis. The Indian Ambassador to China, Mr. Vikram Misri said that India plans to resume discussion on "outstanding trade issues" with China once the COVID situation stabilizes.

1 India-China Trade: profile and issues

China is India's second largest trade partner after the USA. It accounts for 5 per cent of India's exports and 14 per cent of imports. There is a serious problem in the area of trade deficit with China which is almost 39% of India's total trade deficit of USD 162 billion[1].

Some of the key sectors of the Indian economy are critically dependent on China. In 2017-18, almost 60 per cent of India's import requirements of electrical and electronic equipment were met by China, as were more than 75 per cent of the active pharmaceutical ingredients (APIs) used by India's generic pharmaceutical industry. Intermediary and capital goods such as steel, machine parts, chemicals and APIs help India's small and medium enterprises thrive. Many goods of Chinese origin are components of finished goods which India exports to the rest of the world; pharma and auto ancillaries are important examples.

The broad sectoral trends of the exports of China and India show that for the latest year, manufactured products constituted 55 per cent of India's non-oil exports to China, while the corresponding share of China was as high as 95 per cent. There are deep concerns about Chinese restrictions and industrial policies distorting market access into China.

Restoring balance in trade relationship with China has been one of India's priorities. Following the Wuhan summit (2017) both sides have engaged in follow

[1] http://commerce-app.gov.in/eidb/iecnttopn.asp

up negotiations. These have so far yielded rhetorical commitments and marginal outcomes, but failed to ease fundamental Indian concerns. Policy makers have to find ways to manage this huge deficit, given that India can neither limit its economic engagement with China in the short term nor continue such a huge trade asymmetry for long.

2 Chinese Investments in India: profile and issues

China ranks at a low 18th position in terms of cumulative FDI inflows compared to various countries investing in India. For China, India figures only after top 30 FDI destinations countries. In the cumulative FDI equity inflows, 80% have been received since 2014 onwards. China is a relatively late entrant in the Indian market.

Chinese FDI investments estimated in July 2018 range at USD 11-12 billion with ~700 active companies in the market. There is major investment in mobile telephone manufacturing - China brands now account for over 51 percent of the smart phones sales in India. China's venture capital investment in the Indian startup ecosystem grew five times at $5.6 billion in 2018 compared to $668 million in 2016.

China's tech giant companies and venture capital funds have become the primary vehicle for investments in the country – largely in tech start-ups. Chinese companies are also catering to Indian retail consumer via e-commerce and physical retail route. This is different from other emerging markets where Chinese investments are mostly in physical infrastructure. In addition, Chinese companies have done well in securing contracts from Government organizations in sectors like electric vehicles, power equipment, infrastructure (esp. railways and metro), construction equipment, optical fibres, telecom equipment, etc.

Chinese funding to Indian tech start-ups, unlike a port or a railway line, is mainly to invisible assets of small sizes rarely over $100 million – and made by the private sector. However given the deepening penetration of technology across sectors in India, it is making an impact disproportionate to its value. This means that China is embedded in Indian society, the economy, and the technology ecosystem that influences it.

So far, majority of Chinese manufacturing FDI in India has landed in provinces Andhra Pradesh (Sricity, Vishakhapatnam), Telangana (Hyderabad), Maharashtra (Pune, Chakan, Ranjangaon), Gujarat (Vadodara, Sanand), Karnataka (Bengaluru), Uttar Pradesh (Noida, Greater Noida), and Haryana (Gurugram, Bawal, Manesar).

3 Manufacturing Industry in India: Status and policy recommendations

Before looking at what can be done for developing a mutually beneficial India-China trade and investment engagement, we look at some key points about the manufacturing ecosystem in India.

Make in India (MII), one of the first major programs of the new national government was initiated in September 2014 with a vision to transform India into a global manufacturing hub. It set an ambitious target to reach manufacturing share in GDP to 25 per cent by 2022, focusing on liberalisation of FDI policy, emphasis on Ease of Doing Business and improving the infrastructure.

While India has seen record foreign direct investment in this period, it began falling even as other countries in Asia are undergoing an investment boom; with 2019 doing generally worse than 2018 that was already lower than the previous year. Investments fell to a 14-year-low. Indian companies announced very few new projects, 55% lower than the year-ago period.

The Manufacturing sector has been shrinking to about 15 percent of GDP in 2017, from a peak of 18.6 percent in 1995. In December 2019 the DPIIT Secretary-Government of India, admitted that the situation in manufacturing GVA is “worrisome” with growth contracting by 1% in the July-September quarter of 2019-20 from 6.9% expansion a year ago. The Government is working on the Industrial Policy to raise the share of manufacturing from the current 16.4% to over 20% in GVA.

India should develop an ecosystem conducive to the establishment and growth of manufacturing industry. This holds true for both domestic and foreign investment. We give some policy and strategic recommendations:

a. Moving from a functional to an active industrial policy approach

The current focus on improving the ease of doing business is limited as an industrialization strategy; some of the measures are even counter-productive. We recommend Active industrial policies and interventions that guide and promote investment domestically, towards new activities and sectors with higher productivity, better-paid jobs, and greater technological potential. Industrial policy should support firms’ participation in GVCs and benefit from their engagement. To some extent this has been successfully tried in the electronics sector (e.g. mobile phones).

b. Changing labour laws

India should introduce the practice of Fixed Term Contract (FTC) in the manufacturing sector to give employers more flexibility in employment. Initially there may be difficulty as the labour market phases in this new channel of employment and gets accustomed to it. It is proposed that to enable employers to tide over any transitional problems, for a limited period of say 10 years; they should have the flexibility to hire contract labour for main line production activities.

The law on overtime wages also needs to be brought on par with international practice. Section 59 of the Factories Act, 1948, and Rule 25 of the Minimum Wages (Central) Rules, 1950 should be amended to reduce the overtime wages to the level of 125 per cent recommended by the ILO. In order to consolidate the RSKY unemployment allowance scheme, it should be delinked from ESIC and made applicable to all units in the country in the covered sectors.

Developing the labour market will need to be done in small, politically sensitive but economically smart reforms, devolving more power to states, including the informal sector in the reforms dialogue, and discouraging vested interests by sensible incentive mechanisms.

c. Preferential market access (PMA) to domestically manufactured products

The Public Procurement (Preference to Make in India), Order 2017 was issued as part of Government policy to encourage 'Make in India' but has been rendered ineffective. Several qualifying tender conditions ensure that domestic manufacturers do not have a chance at even making an application. A single minded focus on lowest cost procurement has ensured more procurement from China. A Government committee was set up in July 2018 with a mandate to ease the restrictive and discriminatory clauses being faced by the Indian Industry in public tenders. This should be reviewed to ensure that Central and State Governments implement this Order.

d. Design policy instruments and intervention for identified sectors and products therein:

i) Levy of import duties: have a graded system without Inverted duties - highest for import of final products, lower levy on intermediaries, parts and components and the lowest on raw materials.

ii) Relief in direct taxes to all units: This instrument is being considered only for mega investments (> 1Bn USD) in Coastal Economic Zones. The reasons that compel a tax break for mega projects apply equally if not more, to smaller units.

iii) Tweaking indirect taxes: This worked at least as far as attracting investments into cellphone manufacturing industry. Recently the GST has been hiked to 18% from 12% which has reduced the scope considerably. The continuation of the 12% dispensation in the GST regime is now essential for the assembly operations to continue. Deepening this value chain will require extending the differential to parts and components in a phased manner. As of now, the mechanism works only for Customs duty.

e. Promote MSME clusters

A higher budget allocation for cluster development of enterprises is recommended. FDI needs to be promoted in the MSME sector as presently, the measures taken to promote FDI mainly benefit large industries. Capital for MSME should be enhanced not just from bank credit, but also by access to equity. A specialized stock exchange can be set up for this purpose. For boosting MSME exports, an agency be set up to provide guidance and awareness on standards and certifications for exports.

4 Building Indian manufacturing through India–China trade and investment

In the informal leadership summit of October 2019 between PM Modi and President Xi, steps for taking sincere action to reduce trade deficit and specific products and sectors were identified. China welcomed Indian investment in IT and Pharma in China. A High-level Economic and Trade Dialogue Committee and mechanism was agreed upon: to establish manufacturing partnerships by identifying certain Sectors/Industries where investment could come in, manufacturing could create employment and enhance the market for both sides. In November 2019, the government ultimately decided not to join the RCEP, reflecting India's challenges of market access for Indian goods and services in China and the fear of a flood of cheap Chinese imports.

India did open up most of the sectors for FDI investments through automatic route, but investments from Bangladesh and Pakistan, which share borders with India, have to undergo government scrutiny. In April 2020, India reviewed its' FDI policy expanding this restriction to all countries sharing borders with India. With this, the government has now ruled out investments from China, direct or surrogate, without scrutiny. The Government Circular states this is for curbing opportunistic takeovers or acquisitions of Indian companies due to the COVID-19 pandemic.

For building Indian Manufacturing through India–China trade and investment, we give some recommendations on strategy and implementation:

a. Get Chinese MSMEs to manufacture in India

Two kinds of industries are being compelled to move outside China, India could be a potential manufacturing base for these:

- Industries with long value chains, which have a large domestic (Indian) market such as Mobile Phones and Home Appliances
- Export-oriented SMEs like Clothing, Leather Goods, which have a short value chain, low value addition and where the output is directly sold to the final consumer

Chinese MSMEs are keen to venture outside China to set up specialized manufacturing in other countries. Private MSME enterprises do not carry the risk of ties with the Chinese deep state that is associated with large Chinese private players like Huawei, Alibaba etc.

The problem is that people in China have limited access to information about the Indian economy and business environment. This has restricted the relatively mid-scale businesses from China to invest in India. India can identify such MSMEs, and identify which Sectors and provinces of China they are from. This information can be matched with Indian States and Sectors where it can be a good proposition for them to invest and make in India.

We recommend that State, Central Government and MSME associations take up this exercise. Existing traditional MSME clusters can also be developed and upgraded with Chinese financial and technological investment. Our field research shows that this has happened in the Morbi Ceramic Tile Cluster, Gujarat where technology transfer is taking place in a big way.

b. Position "Make in India for the World" as the theme for new industries

For new industries (including electronics clusters) efforts should be made to locate them in zones that are cost competitive from export point of view. For this, develop country-specific industrial parks in PPP mode in coastal states. Fourteen Coastal Economic Zones(CEZ) have been identified under the Sagarmala Program. CEZ with incentives and facilities similar to those in SEZs would help in attracting investments and in turn boost both exports and domestic production.

India should avoid the tendency to let foreign owned companies tap opportunities in the global trade by using India as a base for last-leg assembly, rather we should strive to make Domestic Champions wherever possible. Domestic champions holding new positions in Global Value Chains (GVC) can help us retain our competitive advantage in times of disruptions.

c. Chinese industrial parks in India

As these parks will be developed keeping in mind the requirements of medium to large scale Chinese factories, Chinese can do the job of projecting India opportunities to their own people better than the Government of India ministries, investment promotion agencies, state government agencies, etc. Recommendations for implementation are:

i) Chinese to support in promotion and facilitation, rather than infrastructure development

ii) Solicit Interest from Indian states interested in setting up Chinese industrial parks: As a first step, Government of India should finalize a term sheet with Chinese government. Conduct a survey to identify states that can fulfill the requirements from Chinese side and fast-track the project.

iii) Encourage collaboration between India and foreign private developers: About 8-10 Indian groups own large land parcels across major industrialized/coastal states. These developers have experience of developing industrial parks and are keen to collaborate with Chinese organizations.

d. Exporting to China

The strategy recommended is focused selection of products/sectors combined with a market-led design of export strategies for each of them. This includes branding and market promotion.

i) Pharmaceuticals and IT

Indian companies continue to have a range of non-tariff barriers in China, particularly in IT and pharma. India must use the strength of its service and software industry to get a bigger market footprint in China. The ministry should look at establishing an interface between the Food & Drug Administrations of India and China for conduct of regular training programs on regulatory standards, processes of filing and relaxing the product registration time to a year from 3-5 years.

ii) World Trade Centre lists 20 products

A Report by MVIRDC World Trade Centre, Mumbai has identified 20 products where Indian exporters have a competitive advantage to export to China. Currently India meets only 3.3 per cent or USD 2.7 billion of the total annual import demands of USD 82 billion for these products in China. We recommend exploration of this potential through:

- Exchange of trade delegations with members from these identified sectors
- Create awareness on this opportunity among India's MSMEs producing them
- Map Indian manufacturing clusters to the cities in China. This will go a long way in establishing the brand pull required to provide comfort to Chinese investors.

iii) Cultural exports and Services promotion

According to Retd. Ambassador Bambawale, trade imbalance cannot be managed only by enhancing Indian primary exports. He suggests:

- Attract Chinese tourists in large numbers
- Attract students for undergrad study so they can learn good English and go for higher studies to the US, etc.
- Export Indian films, Yoga and other products/services of our creative and cultural industries.

iv) Focused Export Strategies

For the identified products/Sectors, focused export strategies must be designed taking into consideration the external environment of the particular export market, and can include:

- Skilling and training workers on specialized knowledge about the focus market, specific exports for promotion, language training, etc.
- Mandatory standards for manufacturing with adequate testing and

certification bodies. Harmonizing Indian standards with global standards to enhance export competitiveness. A National Standards Mission can be instituted for this.

- Dedicated offices tasked with product promotion with special emphasis on markets could be set up on the lines of UK Trade and Investment (UKTI), Buy USA etc. to engage in export promotion activities and linking Indian exporters with local buyers. Attention must be placed on building and promoting “Brand India”. The brand building initiatives must be integrated with India’s commercial missions abroad through structured engagements with diplomats. To incentivize greater marketing of products overseas, income tax deduction on marketing expenses should be doubled.

5 Facilitating India-China engagement (G2G, B2B, P2P)

Chinese provincial economic priorities play a critical role in deciding the limits of their interactions with their Indian counterparts. There has been an increasing mobilisation of provincial party secretaries and officials on trade missions to India. Also seen is a new dynamics, where Chinese municipal and prefectural-level entities are seen exploring possibilities of tie-ups with any of the federal tiers in India.

What’s therefore needed is for engagement to be channelised through lower levels of government and society, such as collaboration among businesses, partnerships in technology development, sharing of experiences in urban planning and management and so on. For this model to be effective, it is better if cities and provinces, as opposed to the central leadership, take the lead.

INVEST INDIA, established in the Ministry of Commerce & Industry, is the national investment promotion and facilitation department. Foreign investors can avail of its services without any cost. In China, the Indian Embassy does not have enough staff to reach out to Chinese businesses. CII has an office while FICCI has a local representative in China. We have to develop a mechanism to help Indians invest in China and vice versa. India Inc. could take up the task.

We further recommend, and have framed a step-by-step process that can be followed by both investment seekers and prospective investors. This can result in effective outcome for industry identification and partnership formation.

Between 2013 and 2015, six pairs of Sister-city agreements and two pairs of Sister-province agreements were signed. A State/Provincial Leaders’ Forum was established in 2015 during PM Modi’s visit to Beijing. This was an important statement of intent. Since Wuhan 2017, both sides have established a High Level Mechanism on Cultural and P2P Exchanges and put together a Plan of Action for marquee events in 2020. In October 2019 the Takshashila Institution[2] had recommended these steps to take forward India-China engagement:

[2] Takshashila Discussion Document : Modi-Xi Informal Summit:07 October 2019 by Manoj Kewalramani

- Both sides should announce a timeframe to convene the next State/Provincial Leaders' Forum.
- Both sides should work towards a roadmap for establishing greater connectivity between major metropolises based on sectoral expertise.
- Both sides should announce plans to encourage and facilitate roadshows by provincial and city governments to attract tourists and students.

Since 1997 over the years, a few Indian private non-profit, membership-based agencies and forums have come up. They provide platforms and organise events in India and China, with the objective of facilitating India-China B2B and P2P engagement. A few private Chinese Consulting businesses have been recently set up in India to service Chinese investors to explore and do business in India. There is a China-India Chamber of Commerce & Industry (CCCI) supported by the Chinese Embassy. Chinese Enterprises in India have formed Associations in States/Regions having major Chinese presence.

All such efforts can go a long way in building a more organic and cooperative relationship, strengthening it from the bottom-up. This is critical for deepening people-to-people engagement, a key objective that emerged from the Wuhan Summit 2017.

6 Trust and security issues between India/Indian and China/Chinese

a. Visa issues

Several relaxations and simplifications were made in year 2019 for Chinese nationals to obtain business or tourist visas. For employment visa, Chinese professionals find the process is cumbersome and difficult on several counts. Meanwhile, Chinese nationals are the largest group among India's neighbors when it comes to workforce who applies for an employment visa to work in India.

b. Trust deficit and insecurity

Among common Indian people there is a widespread level of mistrust of China, Chinese businesses and Chinese people. In the Government and Industry circles there is an awareness and suspicion of the Chinese deep state and PLA connection. On the Chinese side - most people in China know very little about India. There is a lot of negative reportage and news about India. The ordinary Chinese has a feeling of insecurity for their assets when investing in India.

There is a large cultural difference between Indian and Chinese people. An organic relationship between India and China is yet to develop. Section (5) above covers initiatives and mechanism to develop an organic cooperative relationship from the bottom-up.

c. Chinese investment and controlling stakes in India's digital sector

A recent Study published by Brookings India states that Chinese investment priorities in India have emerged in the Indian startup ecosystem through venture capital (VC) investment. China's strategic investments in India's digital sector and data-oriented services namely Smartphone Apps, Browsers and Streaming Services are sizeable with among the topmost market shares in India. Chinese investment acquiring controlling stakes in certain sectors bring up wider long-term concerns for India: data security, platform control and propaganda. The following policy recommendations for screening and regulation[3] have been made:

- A centralised FDI screening mechanism for the IT-BPO industry to protect citizens' sensitive personal information from being shared
- Inter-agency committee to review foreign investments involving collection of sensitive personal data
- Data localisation policy

7 Recommendations for an Indian agenda

Currently with the ongoing COVID-19 pandemic and global economic and geo-political fallout, it is difficult to predict how the India-China engagement will play out after the crisis. However, the long term need to grow India's manufacturing sector and employment, and the need to balance the trade deficit with China remains. The issue of Chinese investment has to be seen both from existing and fresh investment points of view. As recommended by the Takshashila Institution[4], India should pursue:

- For trade negotiators on both sides to set a publicly stated target for deficit reduction and also identify key sectors to achieve this target.
- Pursue increased Chinese investments in a range of sectors to boost exports and infrastructure development. It is important that bottlenecks such as information gaps, data requirements and land acquisition issues - impeding investments in roads and railways are addressed.
- India should negotiate on technology cooperation and the role of Huawei in 5G within a broader framework of trade reciprocity.

We also recommend that the idea of mutual FDI for addressing global markets at global scale and quality can be explored; so that investment, technology and management may flow from either side to capture global markets and create jobs and growth in both economies.

India should also engage with China in the Cooperation on International Solar Alliance, Shanghai Cooperation Organisation, trans-border rivers and railway

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[3] https://www.gatewayhouse.in/wp-content/uploads/2020/03/Chinese-Investments-in-India-Report_2020_Final.pdf
[4] Takshashila Discussion Document : Modi-Xi Informal Summit:07 October 2019 by Manoj Kewalramani

station technology. Work together on creating green economies which will go a long way in lowering carbon emissions globally. They should share their experiences in successful mitigation of and adaptation to climate change. The two countries should also collaborate on international negotiation strategies related to emission reductions and how these would be financed. This common vision towards clean energy will ensure beneficial engagement and increased trade opportunities between India and China.

1. Introduction

This is the Final Report of RGICS study on "India-China Trade and Investment- A Road Map for Growth and Employment in India's Manufacturing Sector".

The Study was launched in December 2018. The Study Working Paper 1 titled "Chinese Goods, Make in India to Create Jobs" was published in February 2019, followed by the Working Paper 2 titled " Implications of India China Trade and Investment" in May 2019 (www.rgics.org).

1.1 Study rationale and focus

India has a problem on its hand in the area of trade deficit with China. The total value of exports to China add to USD 13.33 billion while total imports are USD 76.38 billion (2017-18). This amounts to a trade deficit USD 63.04 billion, which is almost 39% of India's total trade deficit of USD 162 billion[1]. In 2018-19, total exports was a little more at USD 16.75 billion and imports a little lower at USD 70.32, reducing the deficit to USD 53 billion.

India's trade deficit with China rose from $671 million in FY01 to $63 billion in FY18. Trade deficit in FY19 declined for the first time to $53 billion with exports to China rising by 25%, but China made up for the shortfall by pushing more exports to India through Hong Kong.

Policy makers will have to find ways to manage this huge deficit given that India can neither afford to limit its economic engagement with China nor continue with such a huge bilateral trade asymmetry for a long period of time. As he took charge in January 2019, India's new Ambassador to China Mr. Vikram Misri stated "Addressing this trade deficit would be one of my priorities because it is not really sustainable in the long term".

For China with its qualitative improvement in the labour force, the domestic sector is gradually shifting towards more knowledge-intensive industries. In the process, China has started losing its cost advantage in several sectors that span the primary, resource as well as labour intensive industries (WTO, 2012). Some of these industries are shifting out of China and relocating to other countries including India but India needs to gear up for such a role. China, one of the largest global investors, is keen to leverage the potential of India's skilled workforce and rising labor supply to partially relocate production to counter its shrinking and ageing workforce[2].

India needs to create jobs: two thirds of India's population is under 35 and in the next decade, India will have more people of working age than anywhere else in the world. A rapidly growing manufacturing sector is the only way India can create highly productive jobs for the 10 million-plus youngsters who join the country's labor force each year including the large number of rural youth which the agriculture sector cannot absorb.

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[1] http://commerce-app.gov.in/eidb/iecnttopn.asp
[2] http://www.icec-council.org/

Currently, the website of the Department of Industrial Policy and Trade, Government Of India[3] states that in order to bring about a quantitative and qualitative change and to give necessary impetus to the manufacturing sector, the Department has notified the National Manufacturing Policy (NMP) with the objective of enhancing the share of manufacturing in GDP to 25% and creating 100 million jobs over a decade or so. The policy is based on the principle of industrial growth in partnership with the States. A strong manufacturing sector is critical for an economy like India, considering the huge employable workforce in the country and the need for self-sufficiency in a number of sectors to bring down the trade deficit.

One of the first major programmes of the newly elected national government in May 2014, was the Make in India (MII) initiative, to transform India into a global manufacturing hub, initiated in September 2014.

Although the statement of intent of MII speaks of encouraging both "multinational as well as domestic companies to manufacture their products within the country", liberalisation of FDI policy pertaining to different sectors that was initiated earlier in August 2014, underlines the reliance placed on foreign companies to contribute to the "making of India".

India is among the five largest markets for Chinese goods. Localizing the manufacture of hitherto imported Chinese goods which are anyway being consumed in the domestic market, we can make in India and create jobs, increase employment opportunities and enlarge the share of the firms located within India in the domestic market. Foreign (Chinese) investors will also be attracted by the profitability of local over foreign production, especially for sales in the domestic market.

India has been famous for its highly competitive technology and capital-intensive industries like pharmaceuticals and IT services. While India's intermediate tier industries like mobile phone and automobile parts manufacturing industries have made major progress in recent years, they still lag behind in terms of international competitiveness and building up of a local supply chain, especially the IT component segment. Counterintuitively, India's labor- intensive industry is disproportionally underdeveloped, leaving its huge workforce largely untapped. This does not take care of India's huge domestic demand for manufactured products, which means Indian consumers have to rely on imported goods.

Neither does it provide enough employment opportunities for India's ever-growing workforce, making job creation a challenge for successive Indian administrations. This is doubly worrying as a large scale of unemployment is observed in the country. The Indian government is looking to grow the country's manufacturing sector to about 20-25 per cent, for which the country needs financial and technology investment.

For more than two decades, China has developed the technology for the manufacture of the goods we seek to make locally. Thus China benefits as it moves up the value chain after transferring low end tech to India. For India, the technology is likely to

[3] https://dipp.gov.in/policies-rules-and-acts/policies/national-manufacturing-policy)

be cheaper and more suited to its needs compared to technology and investment from say a European country. From the Chinese perspective, Joint Ventures with Indian MSMEs has the advantage of providing an existing and growing domestic demand as compared to say Vietnam or Cambodia.

1.2 Methodology

RGICS adopted the methodology of talking to a wide range of stakeholders: policy makers and practitioners of industry, trade and foreign policy, manufacturing/ industry people and associations, academic, research institutions and think tanks both at the national level and in several states. We also held consultations with a range of such Chinese counterparts active and working in India and with members of some visiting Chinese delegations.

RGICS team Meeting with GCEA Members at GIDC factory, Gujarat

We also included the element of facilitating and observing multi-stakeholder consultations (a micro policy-research lab) in the methodology. The following two micro policy-research labs were possible:

(1) RGICS along with the ICEC Council facilitated a multi-stakeholder consultation between officers of Industrial Promotion Department of Govt. of Rajasthan, visiting Chinese investment facilitation agency (CASME) representatives and other Chinese trade and industry representatives in India, and undertook a process observation. (Refer Section 4.5)

2) RGICS supported ILRT to undertake a Workshop in Dewas, Madhya Pradesh on “Capacity Building of Farmers on Sanitary & Phytosanitary (SPS) and Non-tariff Barriers related to Agri-export products”(Refer Section 3.2.5).

We undertook secondary research on trade, industry, manufacturing sector, economic and employment policy, information and data through reading and analysis of papers and published Reports of academic, research and industry institutions, think tanks, subject experts both in the private and Govt. sector.

Annexure 1a gives the list of persons met during the course of the Study. Annexure 1b (References) lists the Reports and publications for secondary research and analysis.

1.3 Output of the study

China is not a significant and substantial investor in India as compared to Singapore, Mauritius and Switzerland. Conversely, in recent years, China has invested heavily in billions of dollars in various countries, but this is not so in India where the investment level is minimal with a marginal rise in recent years. In trade, China has a significant exposure. Cross-border investment remains low because Chinese and Indian companies are still in the early stages of learning how to operate and succeed in each other's economies[4].

China is in transition: from cheap goods, China is shifting on to produce quality goods both value and number-wise and rising to modify and replace its capital equipment. China's economy is facing an ageing population and the proportion of the youth is decreasing steadily with the country's One Child Policy, albeit it was relaxed a few years ago. In this regard, labor intensive and export-oriented industries, which tap into India's abundant labor endowment and bring about new market opportunities for fatigue Chinese capital, are the perfect candidates, if India can thoroughly reform itself in areas like labour regulation and land acquisition.

Countries hitherto importing goods from China over the past many decades - mainly USA, are imposing trade barriers and this provides an opportunity for development of the manufacturing industry in India. Given the Chinese products becoming costlier in these countries after the external tariff hikes on imports of Chinese origin, investors in China are shifting their production bases to other countries including India.

Prof. Joe Thomas Karackattu, Director, Centre for China Studies, IIT Madras said there is a strong economic logic for China to invest in India due to the large market and economic growth. No other nation in the world offers this kind of large and growing market, so where else can China sell anyway? The European countries (2-3% growth rate), USA etc. don't have the growth rate or size of market to satisfy China's appetite.

Therefore, we looked at the issue from both the supply side and the demand side - the supply side being China which has the investment, the finance and the technology to invest, and the demand side being India which has an objective to grow its manufacturing sector.

The ability to create jobs and generate exports lies in the low-end industries like apparel, stationery and household items. Given the experience of Japan, South Korea, China and even lately Vietnam, it was these labour intensive industries that led the industrialization boom by absorbing massive agricultural labour and quickly making a dent in the highly competitive global export market.

The RGICS has taken this as their research hypothesis. The objective is to analyse policy and strategy issues and make policy and strategy recommendations on India-China trade and investment, which could contribute to the development of the manufacturing industry in India with Chinese investments and create employment opportunities.

In the process of both primary and secondary research we found that often the organisations and actors mentioned were not aware of the work being done in this area. One of the important outputs of this research report is we hope, to facilitate information exchange and dialogue across a gamut of agencies and stakeholders.

[4] PHDCCI Report 2018 on India China Trade Relationship

This can lead to incremental knowledge sharing and learning, more effective policy and strategy formulation, and better mechanisms of engagement.

The Study also shows critical sectors and issues that need to be taken up for a deeper research, policy analysis and advocacy.

2. India-China Trade and Investment

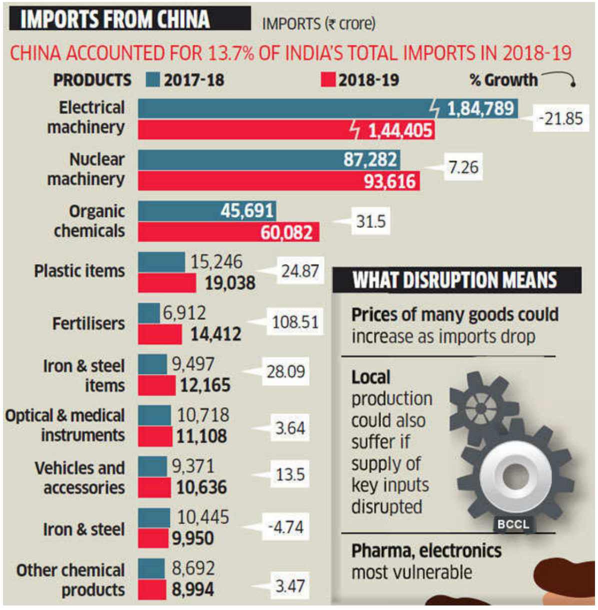
2.1 India-China Trade: profile and issues

China is India's second largest trade partner after the USA. China accounts for 5 percent of the country's exports and 14 percent of imports. Apart from direct import from China we have a substantial indirect import from China.

Imports from China are primarily in two commodity groups — electrical and electronic equipment and pharmaceuticals. In 2017-18, almost 60 per cent of India's import requirements of electrical and electronic equipment were met by China, as were more than 75 percent of the active pharmaceutical ingredients, the raw material used by India's generic pharmaceutical industry. Thus, **some of the key sectors of the Indian economy are critically dependent on China**[6].

According to calculations made using data from the Ministry of Commerce, for the 12 import items for which import volumes measured above USD $1 billion in 2018, the average dependence rate (i.e. the average of China's share in total Indian imports for each of these commodities) was 60.91%, with seven of these items (mostly electronic goods) displaying rates above 75%. As such, China plays an inordinately large role in supplying India with big ticket imports, rendering India dependent on Chinese producers.

Interestingly, despite a nominal increase in the bilateral deficit, India's dependence on trade with China modestly went down in 2018 compared to 2017. India grew less dependent on China for certain prominent imports as it grew its trade volume with the rest of the world. In the case of chips and memory cards, dependence on China has increased dramatically.



https://m.economictimes.com/news/economy/foreign-trade/coronavirus-and-indo-china-trade/articleshow/74089524.cms

Even as India makes efforts to increase its exports to China, China has begun to ship some of its products through Hong Kong rather than its domestic ports. As Mr. Hazari[7] informed, there are a lot of Chinese products coming via Singapore, Thailand, Australia and Malaysia with whom we have a Free Trade Agreement (FTA), and this does not get counted in the figures under Chinese import data.

In sharp contrast to the type of imports from China, India's top exports were mostly intermediate products and raw materials. These included cathodes, petroleum oils, intermediate products for the producing films and plastics and iron ore and

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[6] Professor Biswajit Dhar, Centre for Economic Studies and Planning, Jawaharlal Nehru University https://www.thehindubusinessline.com/opinion/chinese-cheer-for-indian-exports/article26431736.ece#Mar2019

[7] Mr. Somi Hazari, Member-Chennai Centre for China Studies (3CS).MD, Transnational Strategy Group

concentrates. The broad sectoral trends of the exports of China and India show that for the latest year, manufactured products constituted 55 per cent of India's non-oil exports to China, while the corresponding figure for China was as high as 95 per cent.

There are deep concerns about market access restrictions in China and industrial policies distorting the market. India and China entered the 21st century with a bilateral trade volume of less than $3 billion. Since then, bilateral goods trade has witnessed explosive growth, crossing $90 billion. This expansion, however, has been unbalanced, with China enjoying an overwhelming trade surplus. New Delhi has imposed anti-dumping duties against cheap Chinese items to protect the domestic industry, but Beijing has been reluctant in giving market access to Indian products. The product profile of India's exports have more or less remained unchanged over the last decade and have been dominated by raw materials such as cotton, iron ore, copper, coal, and chemicals.

The lack of mandatory technical standards on a number of items also provides an easy passage to low-quality Chinese products such as toys and firecrackers to flood Indian markets. *"The impact of Chinese imports has been such that India is threatened to become a country of importers and traders with domestic factories either cutting down on production or shutting down completely. The country can ill-afford its industry, including MSMEs, getting annihilated,"* the parliamentary standing committee on Commerce stated in July 2018.

Creating Manufacturing Jobs in India: Has Openness to Trade helped? There is very little if at all, comprehensive research and analysis on employment growth related to India's manufacturing sector, FDI and trade liberalization policies. A Working Paper on Creating Manufacturing Jobs India: Has Openness to Trade Really Helped" published 2015 by ICRIER[8] analysed that:

"despite complete liberalization, India, unlike other labour surplus Asian economies, has not experienced any major surge in the exports of low skill labour intensive products. In contrast, it has been increasingly specializing in the exports of high skilled labour intensive products such as general purpose machinery, petroleum refinery and chemical products etc., which have low employment potential.

Measures are needed to unblock the supply side constraints that determine competitiveness in the long run. Studies, in Indian context, have repeatedly highlighted poor public infrastructure, rigid labour laws and lack of access to finance as the main impediments to the competitiveness of labour intensive industries (Gupta et al. 2009).

Poor infrastructure affects labour intensive industries more because these are dominated by small and medium enterprises that do not have the financial resources to overcome the challenges of poor public infrastructure facilities such as the availability of sufficient and reliable supply of electricity. Therefore, infrastructure

[8] https://icrier.org/pdf/Working_Paper_303.pdf (2015)

and financial constraints along with other institutional impediments should be addressed urgently to gain labour market benefits from international trade."

India's trade deficit with China is part of a larger challenge of trade competitiveness, which encompasses a range of issues from domestic macroeconomic imbalances to the failure to plug into global supply chains. Electronic items dominate India's imports from China, but cheaper intermediary and capital goods such as steel, machine parts, and chemicals, APIs, help India's small and medium enterprises thrive.

An error commonly encountered in Indian discourse on the trade deficit with China is an over-emphasis on the import and deficit value. A widening bilateral trade deficit does not solely accrue as the result of unfair trade practices of the partner in question. A major driving force behind the aggregate trade deficit is an economy's domestic macroeconomic fundamentals. India is a consumption-oriented economy which saves and invests less (relative to consumption) and, thus, tends to import more than it can produce for export. A rise in the value of the bilateral deficit, therefore, is partially a result of the fact that India's savings rate has been falling consistently since 2010.

According to Uday Khanapurkar[9], analyzing trade values without contextualizing the data tells us little. It is not the imbalanced figures themselves, but rather an overall dependence on Chinese goods that is germane to the health of India's political economy. The complexity of trade relations has baffled policymakers and made it difficult for them to devise a coherent strategy to counter China's aggressive trade push. However, there are also good reasons to focus on the trade deficit with China as a specific policy challenge.

Restoring balance in the trade relationship with China has, therefore, been one of India's priorities following the Wuhan summit (2017). Since then, both sides have engaged in more negotiations. These have so far yielded rhetorical commitments and marginal outcomes, which have failed to ease fundamental Indian concerns.

2.2 Chinese investments in India: profile and issues

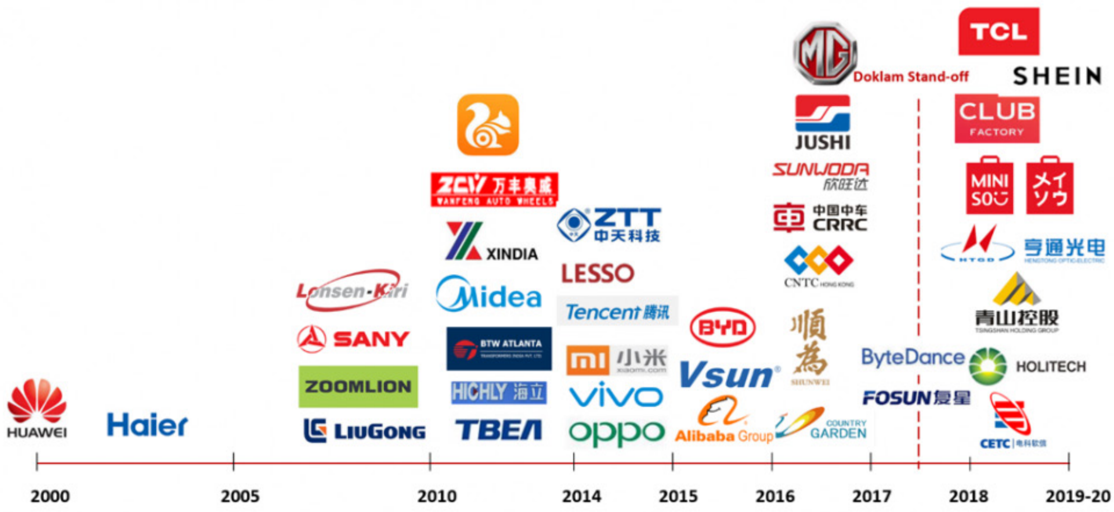
Under the Make in India program that started in September 2014, there is an unequivocal statement: "FDI reforms reflect a decisive change in philosophy, from viewing FDI as a tolerable necessity to something to welcome"[10].

China ranks 18th in terms of cumulative FDI inflows compared to various countries investing in India. Of the cumulative FDI equity inflows, 80% have been received since 2014 onwards and China is a relatively late entrant in the Indian market. For Chinese Outward FDI, India is far from being among the top destinations. It figures after China's top 30 FDI destination countries.

It is estimated in July 2018 that Chinese FDI investments in India are in the range of USD 11-12 billion with ~700 active companies in the market. This is still relatively

[9] https://southasianvoices.org/measuring-the-true-health-of-the-india-china-trade-relationship/April 2019
Uday Khanapurkar. Author's calculations using data from the Ministry of Commerce, Government of India.
[10] http://isid.org.in/pdf/Assessing_India's_Recent Inward_FDI.pdf (2018)

Figure 4: Market Entry of Chinese Companies in India— Time Series, 2000 – 19



https://www.investindia.gov.in/team-india-blogs/who-attracting-chinese-fdi-recent-trends-emerging-hotspots-and-future-trajectory

small compared to what India has received from the US, the UK and Japan, but is substantial progress[11]. China has made a big investment in mobile telephone manufacturing in India. China brands now account for over 51 percent of the smart phones sales in India. Start-ups, infrastructure and electronic manufacturing have become the key areas for Chinese investment.

So far, majority of Chinese manufacturing FDI in India has landed in provinces Andhra Pradesh (Sricity, Vishakhapatnam), Telangana (Hyderabad), Maharashtra (Pune, Chakan, Ranjangaon), Gujarat (Vadodara, Sanand), Karnataka (Bengaluru), Uttar Pradesh (Noida, Greater Noida), and Haryana (Gurugram, Bawal, Manesar). Annexure 2 tabulates the successful Chinese Investments in India by Sector, Product, Location and Government support.

2.2.1 China in India's digital sector

Chinese PE/VC firms have invested heavily in internet based business such as e-commerce platforms, smart phone apps, media streaming services, healthcare tech, fintech, taxi aggregator, travel booking, logistics firms, etc. (Annexure 2). China's venture capital (VC) investment in the Indian startup ecosystem grew five times at $5.6 billion in 2018 compared to $668 million in 2016[12].

[13]Such is their success that over the five years ending March 2020, 18 of India's 30 unicorns are now Chinese-funded. A full 50% of top smartphone app downloads (combined iOS and Google Play Downloads) in 2018 were those with Chinese investment. TikTok video app has 200 million subscribers and has overtaken YouTube in India. UC Browser as of October 2019 has a sizeable market share of 17.09% in the mobile browser market space and also leads the mobile phone segment in India with 21.38% market share. Its competitor is Chrome, with a 69.35% market share.

[11] https://www.investindia.gov.in/team-india-blogs/
[12] https://yourstory.com/2020/02/coronavirus-impact-startup-ecosystems-india-china.
[13] https://www.gatewayhouse.in/wp-content/uploads/2020/03/Chinese-Investments-in-India-Report_2020_Final.pdf

Thus Chinese investment behemoths Alibaba, Tencent and ByteDance rival the U.S. penetration of Facebook, Amazon and Google in India. China's strategic investments in data-oriented services makes it critical for India's security agencies to pay attention to these soft power projects in India.

Unlike acquisitions and investments in the west, the objectives here are slightly different — it is not about acquiring new technology (India is widely seen as lagging behind China on this front), but sharing the successes of the Chinese e-commerce experience and helping Indian companies to scale up in a similar way.

Private equity (including venture capital) certainly has a shorter investment horizon unlike the traditional FDI which would not start off with a pre-conceived idea of exiting an enterprise[14]. Private equity investors have the overriding objective of large and fast capital gains and revenue in other forms and there is no question/intention of integrating the investee company into their own structures like an MNC does. Also, in their operations one cannot distinguish between domestic and foreign. If their investments have to be treated as FDI, they may be categorised as pure 'return seeking' FDI.

China's economic footprint in India seems negligible compared to its presence in other emerging markets, especially in South Asian countries such as Pakistan, Sri Lanka, Myanmar and Bangladesh, where investments in these countries are mostly in physical infrastructure. The single largest Chinese investment in India is the $1.1 billion acquisition of Gland Pharma by Fosun in 2018. This accounts for 17.7% of all Chinese FDI into India, but it is unique. Gateway House identified just five other investments (FDI) by Chinese companies which exceed $100 million. This includes the $300-million investment by MG Motors[15].

Chinese funding to Indian tech start-ups, unlike a port or a railway line, are invisible assets in small sizes – rarely over $100 million – and made by the private sector. However given the deepening penetration of technology across sectors in India, it is making an impact disproportionate to its value. This means that China is embedded in Indian society, the economy, and the technology ecosystem that influences it.

2.2.2 India's Ill-preparedness to assess FDI[16] :

India is far from offering an analytical picture of what is happening on the FDI front beyond releasing some broad aggregates of FDI. A study of India's FDI statistics by the National Council of Applied Economic Research (NCAER, 2017) brought out that government ministries largely do not have the requisite information, cannot access or have not yet begun to study the economic contribution and impact of foreign firms.

[14] Downloads/Indias_FDI_Inflows_Trends_and_Concepts%20(1).pdf by RIS/ISDN
[15] https://www.gatewayhouse.in/wp-content/uploads/2020/03/Chinese-Investments-in-India-Report_2020_Final.pdf
[16] http://isid.org.in/pdf/Assessing_India's_Recent Inward_FDI.pdf (2018)

The principal data gaps appear to be the lack of information on FDI inflows into individual states, on the universe of foreign firms in particular states and sectors, and their contribution in terms of employment, trade, and overall economic value-addition. The Parliamentary Standing Committee on Commerce[17] had said that: *"….. It is, therefore, high time that suitable mechanism be established to keep track of the nature of Foreign Direct Investments (brownfield and Greenfield investments) coming in the country…"*.While this was stated for the pharma sector, there is overall, a need to put in place and implement a mechanism for proper assessment of FDI and its impact.

2.3 Chinese enterprise associations in India

With the growth of Chinese enterprises, investors and people working, living and visiting India, in several states they have formed Associations to:

- understand and share experiences on doing business, travelling and living in India and resolve problems,
- represent matters collectively with policy makers
- educate their members
- facilitate Chinese investment

The Associations we came across are:

Chindia Chamber of Commerce and Industry (CCCI), Gurgaon
India China Chamber of Commerce & Industry (ICCCI).
Gujarat Chinese Enterprise Association (GCEA)
Mumbai Chinese Enterprise Association (MCEA)
Bangalore Chinese Chamber of Commerce

A few private Chinese business facilitation and consulting enterprises have also been set up by the Chinese in India such as ACN Global in Bengaluru, Draphant Group Gurugram and Topline Consulting Group Gurugram.

[17] http://isid.org.in/pdf/Assessing_India's_Recent Inward_FDI.pdf (2018)

3. Manufacturing Industry in India: status and overarching Issues

Before going forward on what can be done to develop Manufacturing sector growth and employment in India through India-China Trade and Investment, it is important to look at some key points about the manufacturing ecosystem in India.

3.1 Government policy and performance (2014-2019)

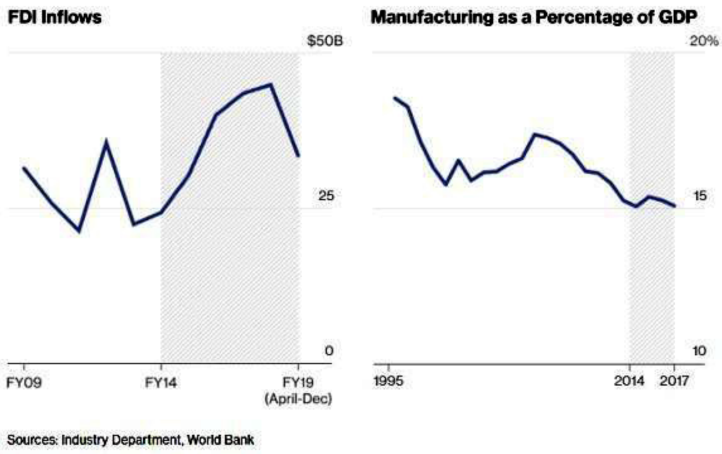
Make in India (MII) was one of the first major programmes of the new national government that got elected in 2014. MII was initiated in September 2014 with a vision to transform India into a global manufacturing hub, with an ambitious target to reach manufacturing share in GDP to 25 per cent by 2022, focussing on:

- further liberalisation of FDI policy
- heavy emphasis on Ease of Doing Business and
- improving the infrastructure

Government FDI policies were aimed at increasing the presence of "foreign direct investors" in the Indian economy - treating investments by certain foreign investors as not FDI for policy purposes but considering the same as FDI for reporting purposes, further relaxing the limits on FDI and significantly expanding the scope for automatic entry. The Foreign Investment Promotion Board (FIPB) was abolished in May 2017 and in its place a Foreign Investment Facilitation Portal came into existence as a single point interface between foreign investors and the government.

Interestingly the Discussion Paper "Industrial Policy 2017" released by the government in August 2017, just a couple of days after the much delayed Consolidated FDI Policy Circular 2017 was announced; expressed concern that while FDI policy has largely aimed at attracting investment, "FDI policy requires a review to ensure that it facilitates greater technology transfer, leverages strategic linkages and innovation".

Meanwhile,[18]the Manufacturing sector has continued shrinking to about 15 percent of GDP in 2017, from a peak of 18.6 percent in 1995. Despite some signs of recent



[18] https://www.thehindubusinessline.com/economy/sbi-warns-govt creating-fewer-jobs-for-biggest-workforce/ article 30555276.ece? utm Jan 13, 2020

spurt in manufacturing growth driven by high growth in some sectors, it is still far short of pulling up manufacturing share in GDP to the tune of 25 per cent as targeted by the policymakers. And while India has seen record foreign direct investment in this period, it's begun falling even as other countries in Asia are undergoing an investment boom.

The trend of lower investments continues, with 2019 doing generally worse than 2018 that was already lower than the previous year. [19]Investments fell to a 14-year-low. Indian companies announced very few new projects, 55% lower than the year-ago period. According to Dr. Raghuram Rajan[20] "the stagnation in investment is the strongest sign that something is deeply wrong. Extreme centralization of power with a few people in the PMO has worked well for the political and social agenda where they have domain expertise. But it has not worked well for the economic agenda due to extreme centralization and lack of domain expertise on this front."

In December 2019 the DPIIT Secretary-Government of India, admitted that the situation in manufacturing GVA is "worrisome" with growth contracting by 1% in the July-September quarter of 2019-20 from 6.9% expansion a year ago. "[21]We are looking at how to further expedite the various approval processes, and put in place a mechanism to have the authorities of various departments of central and state governments at one place to facilitate the domestic and foreign investors".

The Government reiterated it is working on the draft Industrial Policy to raise the share of manufacturing from the current 16.4% to over 20% in GVA. The Strategy suggested in the Government Working Group Report (2019)[22] is tabulated below. The Working Group Report is to be considered complementary to the proposed Industrial Policy.

Sectoral or Vertical focus*	Horizontal enablers to be strengthened
Existing high impact sectors	Physical and Digital infrastructure
Medium, Small and Micro Enterprises (MSMEs)	Factor market reforms (land, capital, and labour)
Emerging sectors	Education and Skilling
** large labour intensive sectors to be the thrust sectors to ensure job creation*	Innovation and R&D
	Improving ease of doing business.
Focus sectors prepared by CII for the Government in its Report, 2018	
Existing sectors with high growth potential identified (11)	**Nascent sectors with potential for exponential growth identified (8)**
Defence manufacturing	Biotechnology and genomics

[19] http://www.rgics.org/wp-content/uploads/RGICS-Policy-Watch-8.9-Oct-2019.pdf
[20] Former Director, Reserve Bank of India, The Economic Times December 2019
[21] https://economictimes.indiatimes.com/news/economy/finance/centre-state mechanism- to-facilitate-investments-guruprasad-mohapatra/ articleshow/
[22] Working Group on USD Five trillion Indian Economy DIPP, Ministry of Commerce & Industry, GOI Jan 2019

Aeronautical products	Electric mobility and storage
Chemicals	Unmanned aerial vehicles
Electronics	Active pharmaceutical ingredients
Auto and auto-components	Medical devices
Pharmaceuticals	Robotics and automation equipment
Space manufacturing	Advanced materials
Ayurvedic products	Chemical feedstock
Ready-made apparel	
Food processing	
Jewellery	

3.2 Recommendations for manufacturing sector policy

Industry leaders we spoke to, say: Even with their own investments, Indians find it difficult to manufacture in India, leave alone the Chinese. The manufacturing sector in India is very difficult and problematic. Most people having factories would not advise their children to get into this line of business.

This section gives some policy and strategic recommendations for the horizontal enablers that need to be strengthened to create an ecosystem conducive to the establishment and growth of the manufacturing sector in India, regardless of whether it is domestic or foreign investment. In this Report we have not attempted Sector-based recommendations which would require a deeper study of each focus Sector and products/categories therein. This is beyond the scope of this Research Study.

3.2.1 Moving from a functional to an active industrial policy approach

It is imperative for India to realise that the current focus on improving the ease of doing business is limited as an industrialisation strategy, and some of them like 'labour market flexibility', even counter-productive.

We need to rethink India's Industrial Policy Choices. This is well explained by Smitha Francis, 2019[23] : "A horizontal industrial policy framework essentially accepts static comparative advantages that are based on a country's existing factor endowments. It mainly aims to reduce the costs of doing business,

[23] https://www.madhyam.org.in/rethinking-indias-industrial-policy-choices/ Smitha Francis April 2019

while carrying out hands-off trade and financial liberalisation to allow greater play of market forces. The focus, therefore, is on improving the ‘ease of doing business’ by improving infrastructure, relaxing business entry and exit regulations, taxation, customs and other administrative procedures under trade facilitation, investment promotion and facilitation, enabling so-called labour market ‘flexibility’, etc.

By contrast, *active* (or vertical or selective) industrial policies seek to influence the pattern of national development by policy interventions that guide and promote investment domestically towards new activities and sectors with higher productivity, better-paid jobs, and greater technological potential”. This Report recommends the active vertical industrial policy choices. Moreover, “there is a heightened need for vertical industrial policies to support developing country firms’ participation in GVCs and to draw benefits from their engagement”.

3.2.2 Changing labour laws

Labour regulations generally cover workers other than those employed in managerial or administrative capacity. The term workman covers this subset of workers, although there are minor differences in definition of workman in Industrial Disputes Act, 1947 and Contract Labour (Regulation and Abolition) Act, 1970.

One of the features for manufacturing for global markets is volatility in demand faced by a firm, caused both by overall demand cycles and also moves by competitors to capture that demand. Another feature of global markets is constant innovation in products. This requires adoption of new manufacturing processes and new or special skills, which existing workers may not be able to adopt or adapt to. All this requires a change in labour laws to permit flexibility to exporters.

ICRIER has analysed and made recommendations which are worth implementing[24] :

“Although the complexity of labour regulations raises the cost of compliance generally and impedes manufacturing activity, it is the constraint on the ability to vary the size of the labour force in response to changes in the market situation that constitutes the biggest obstacle to manufacturing enterprises in the globalisation era. The best policies are those that maintain a balance between the employers’ requirement of labour market flexibility and the protection of the interest of workers.

India too needs to introduce the practice of FTCs in the manufacturing sector to give employers more flexibility in employment. Over time it is expected that FTCs will enable employers to cope with such ad hoc increases in demand, but initially there may be difficulty as the labour market phases in this new

[24] https://icrier.org/pdf/Working_Paper_298.pdf (2015)

channel of employment and gets accustomed to it. It is proposed that to enable employers to tide over any transitional problems, for a limited period of say 10 years, they may continue to have the flexibility to hire contract labour for main line production activities.

Other laws and schemes: In a globalised world, the law on overtime wages also needs to be brought on par with international practice. Section 59 of the Factories Act, 1948, and Rule 25 of the Minimum Wages (Central) Rules, 1950 need to be amended to reduce the overtime wages to the level of 125 percent recommended by the ILO. Such a step will enable our labour intensive industries to be competitive in international markets. The RSKY unemployment allowance is broadly comparable with such schemes in emerging countries and its elements need no major change. However, in order to consolidate the scheme, it should be delinked from the ESI Corporation and, even more importantly, it should be made applicable to all units in the country in the covered sectors".

Teamlease's labour ecosystem index[25] shows Andhra Pradesh and Karnataka beating Delhi and Gujarat for top spots in the overall labour ecosystem. It also shows how several other states are improving in sub-indices that include strikes and lockouts prevention, labour participation rate, and inspector raj – showing state initiatives to make amendments to improve on flexibility for employers and job opportunity for employees.


Chinese Toy Factory at SriCity, Andhra Pradesh for export to USA

https://www.bbc.com/news/business-34580581

Some states, like Andhra Pradesh, Maharashtra, Gujarat, Karnataka and Madhya Pradesh, actively wish to make labour laws more flexible, allow choice and opportunities for employees. This includes small amendments like flexibility in work hours, allowing night shifts for women, or freedom to fix minimum wages. Simultaneously they have adopted the same for employers; for example, initiatives to reduce the number of inspectors.

Policymakers can do their part, but the political elite must also play a role in selling these reforms attractively. If India is to realise its true growth potential, we need to start a nuanced discussion on developing the labour market: to think about small, politically sensitive but economically smart reforms, devolve more power to states, include the informal sector in the reforms dialogue, and discourage vested interests by sensible incentive mechanisms.

[25] http://takshashila.org.in/wp-content/uploads/2014/03/TPB-Labour-Market-Flexibility-Hemal-Shah-2014-S01.pdf

Mr. RC Bhargava[26] a doyen of Indian automobile industry, said we need to learn from industrialization and industrialists in Japan. The difference between the remuneration of the owner and employee in Japanese industry is a maximum of eight times. The Japanese industrialist says he wants his employee to be able to ultimately afford and buy his industry products.

3.2.3 Preferential market access (PMA) to domestically manufactured products

The Public Procurement (Preference to Make in India), Order 2017 was issued in June, 2017 as part of the policy of the Government of India to encourage 'Make in India' and promote manufacturing and production of goods and services in India.

The parliamentary standing committee on commerce, July 2018 noted that the preference for Chinese products by government agencies, PSUs and State governments has not waned in the light of this Order. Tenders and procurement process suffers with restrictive and discriminatory clauses being imposed against domestic manufacturers and suppliers in tender documents for public procurement. Several qualifying tender conditions ensure that domestic manufacturers do not have a chance at even making an application.

> The demand for bicycles in India has increased lately, mainly due to public bike share programs under the Smart Cities Mission. Smart City administrations in most cities have been showing a preference for cheap Chinese bicycles over Indian ones even though the Parliamentary Committee had recommended that the government ensure Smart City administrations procure Indian bicycles under this Order.
>
> Another example is the procurement of LEDs by EESL by aggregating demand which started off as a very good idea. A single minded focus on lowest cost procurement has however ensured that even these LEDs that were so far "made in India" are now procured in China.

A five-member committee chaired by the Secretary, DIPP was set up to oversee the implementation of the policy. It was asked to ease the restrictive and discriminatory clauses being faced by the Indian Industry in public tenders. The Parliamentary Committee had also desired that the State Governments be sensitised about the essentiality of adoption of public procurement order giving preference to domestically-manufactured goods and must be put to good use. This Report recommends that Central and State Governments should ensure implementation of this Order.

3.2.4 Policy instruments to increase manufacturing share in GDP[27]

For identified Sectors and Products therein, design policy instruments and intervention:

[26] Current Chairman, Maruti Suzuki India
[27] https://knnindia.co.in/blog/blogdetails/fake-in-indiaDec 2016. The Author is on CII National Committee on ICTE and MD, Deki Electronics.

- Protection for domestic manufacturing through levy of import duties
  A Graded System without Inverted duties - highest duties for import of final products, lower levy on intermediaries, parts and components and the lowest on raw materials. WTO's thrust towards low bound rates, and in some sectors such as electronic hardware, zero duty has rendered this measure ineffective. Import duties also mitigate some of the disabilities of higher costs and complexities. The sectors that have faced zero import duty have been rendered non-competitive.

- Relief in direct taxes to all units
  Exports as a business category and software as a sector enjoyed tax holidays for an extended period of time. The finance ministry is now opposed to any exemptions in direct taxation. So this instrument stands blunted. The only exception being considered is for mega investments (> 1Bn.$) in Coastal Economic Zones under a new Niti Aayog policy. The reasons that compel a tax break for mega projects apply equally, if not more to smaller units.

- Tweaking indirect taxes
  (a) geographical exemptions of excise duty are in place in a few states. However these are on last legs, as input taxes on the manufacturing has to be paid. So the exemption is only on the value-add.
  (b) for some sub sectors such as mobile phones, assembly operations have come to life on the basis of "differential duty". Tweaking the indirect tax chain will hurt someone in the value chain, but for the moment this seems to work at least as far as attracting investments into cell phones are concerned.

  In the mobile phone manufacturing industry, there is a differential duty PMP (Phased Manufacturing Programme) in place. Key components and complete mobiles are at a high duty of customs, while the parts and sub parts are exempted. This has resulted in the setting up of a good mobile phone industry with imports dwindling to zero. There is a high level of investment in manufacturing by almost all major brands. Apple too, has set up shop in India by diverting a quarter of its plants from China. The PMP needs extension to other items like TV and medical equipment. The move has to be accompanied with parallel action to curb FTA imports.

  Recently the GST has been hiked to 18% from 12% which has reduced the scope considerably. The continuation of such a dispensation in the GST regime is now essential for the assembly operations to continue. Deepening this value chain will require extending the differential to parts and components in a phased manner.

3.2.5 MSME clusters

The Ministry of MSME introduced the cluster development approach for enhancing the productivity and capacity building of the MSMEs with the objectives of setting up of common facility centers, upgrading infrastructure and supporting the sustainability and growth of these enterprises. However, these schemes suffer from poor implementation and design, shortage of funds and lack of strategic focus. Since MSME has been identified as a focus area, we recommend the following:

- Capital for MSME should be enhanced not just from bank credit, but also by access to equity. For this, Equity investment should be accessible not from NSE, but a specialized stock exchange set up for this purpose, this was suggested in the UK Sinha Committee Report too. The USA, for example, already has this system.
- The report on 'Industrial Policy in the Changing Global Scenario' December 2016, submitted by the Standing Committee on Commerce chaired by Mr. Bhupender Yadav, noted that measures taken to promote foreign direct investment (FDI) mainly benefit large industries. The government must take measures to promote FDI in the small and medium enterprises sector.
- For boosting MSME exports, a Government agency may be set up to provide guidance, raise awareness on standards and certifications for exports and also help MSMEs in finding potential customers in certain key markets. An initiative in this line was carried out by ILRT with the support of RGICS at Dewas, Madhya Pradesh with farmer groups (Refer Annexure 3).

4 Building Indian manufacturing through India–China trade and investment

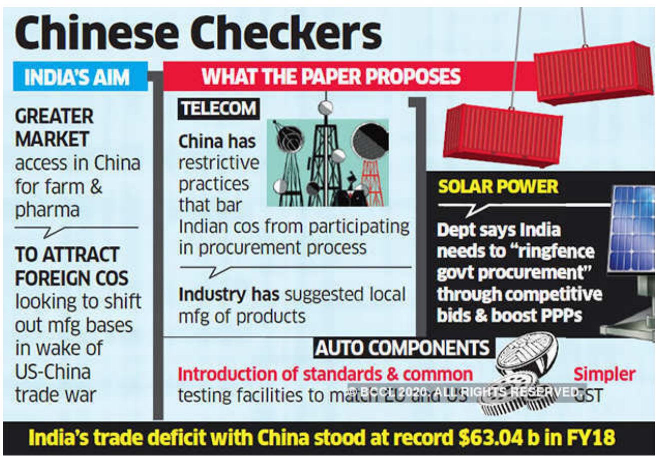
4.1 Government policy and approach

India opened up most of the sectors for FDI investments through automatic route, but investments from Bangladesh and Pakistan, which share borders with India, had to undergo government scrutiny in a special category. In April 2020, India reviewed its' FDI policy, to extend this restriction to all countries "sharing a common border with India". With this, the government has now ruled out automatic investments from China, direct or surrogate. These too must pass the scrutiny of official agencies. The Government Circular states this is for curbing opportunistic takeovers or acquisitions of Indian companies due to the COVID-19 pandemic.

In the informal leadership summit of October 2019 between Prime Minister Modi and Chinese President Xi, steps for taking sincere action to reduce trade deficit, specific products and sectors were identified - sugar, rice, pharma and so on. China welcomed Indian investment in IT and Pharma in China. The two countries set up yet another committee—the High-level Economic and Trade Dialogue mechanism following the summit, to be headed by the Vice Premier of China and India's Finance Minister. The two leaders agreed through this new mechanism, to establish manufacturing partnerships by identifying certain Sectors/ Industries where investment could come in, manufacturing could create employment and enhance the market for both sides.

India's challenges of market access for Indian goods and services in China were reflected in the negotiations of the terms of the 16-nation RCEP. India offered to open up 74% of its market to Chinese goods in phases. China asked India to allow duty-free import of 85% of its products into the country. Both sides were close to a deal. But in November 2019 the Indian Government ultimately decided not to join this China-backed regional trade pact for fear of a flood of cheap Chinese imports.

The Government of India said in its strategy paper[28] of May 2019: It aims to reduce the trade deficit with China through detailed sector-wise strategy for import substitution in electronics, telecom, electrical equipment and pharmaceuticals, which form the bulk of the country's purchases from China. *(It is worth noting here that the import of intermediaries from China such as API for pharma, Electronics, Auto parts & Ancillaries, dyes used in the textile industry etc., serve as inputs for India's exports in these Sectors to all parts of the world).*



https://economictimes.indiatimes.com/news/economy/policy/strategy-in-the-works-to-woo-companies-looking-to-exit-china/articleshow/69490973.cms

[28] https://economictimes.indiatimes.com:strategy-in-the-works-to-woo-companies-looking-to-exit-china/May 2019

The Paper also includes a strategy to gain market access in China for its farm and pharmaceutical exports and attract foreign companies looking to shift out their manufacturing bases from there in the wake of the trade war between the US and China.

4.2 Recommendations on strategy and implementation

4.2.1 Get Chinese MSMEs to manufacture in India

The first wave of Chinese investors came in 2015 after the new Indian Government came in and the India-China country heads met. The initial Chinese investors have been big players like Xiaomi, Lenovo, Foxconn, Oppo, Vivo etc. [29]Since 2018 there is also a second category of interested investors - medium and small business investors who would set up smaller/medium sized manufacturing units making less sophisticated products. The ability to create jobs and generate exports lies with such low-end industries in apparel, stationery and household items, rather than the tech-savvy large industries.

https://www.facebook.com/maxwoodind/photos/

The Gujarat Chinese Enterprise Association (GCEA) has 30 different types of member companies. All are 100% FDI. Among these enterprises, Maxwood Industries (which manufactures PVC Edge Strip, Laminated Plywood, Adhesive Glue, etc.) and HIGHLY Electrical Appliances (which manufactures Compressors) have resulted in maximum job creation vis-a-vis investment. Both are more labor intensive and also replace current Chinese imports with locally manufactured items.

India needs to identify the MSMEs which are under compulsion to move out from China, and identify the Sectors and their origin source in China. This information will have to be matched with Indian States and Sectors where it can be a good proposition for them to invest and make in India. The problem is that people in China have limited access to information about the Indian economy and business environment. This has restricted the relatively mid-scale businesses from China to invest in India.

Chinese MSMEs are keen to venture outside China to set up specialized manufacturing in other countries. Private MSME enterprises do not carry the risk of ties with the Chinese deep state that is associated with large Chinese private players like Huawei, Alibaba etc.

Despite all advantages of Indian market, language and lack of people-to-people contact has emerged as the single-largest obstacle for exchange of information between the two countries. **(Recommendations for mechanisms and steps to establish G2G, B2B and P2P contact and engagement are in Section 4.4 of this report).**

[29] 'Amit' Li Jian , CEO Draphant Consulting Group, & Secretary General, Chindia Chamber of Commerce and Industry (CCCI), Gurugram-Haryana

The CASME representatives explained that there are two kinds of industries that are compelled and looking to move outside China, for which India can be a potential manufacturing base:

- Industries with long value chains, also having a large domestic (Indian Market) namely Mobile Phones, Home Appliances
- Chinese export-oriented MSMEs like Clothing, Leather Goods, which have a short value chain and low value addition where the output is directly sold to the final consumer.

CASME also expressed that if existing manufacturing Clusters which can benefit and upgrade with the help of Chinese technology and financial investment, such technology manufacturing industries can be set up locally by the Chinese.

Across India, traditional MSME clusters have developed organically around a specific sector, with local private entrepreneurship and very little role of the Government. There are many such manufacturing cluster-towns: Tiruppur Hosiery Cluster in Tamil Nadu, Diamond Cutting & Polishing Cluster in Surat, Knitwear Cluster in Ludhiana, Brasswork Cluster in Moradabad, Ceramic Tile Cluster in Morbi, etc.

We recommend that State, Central Government and MSME Cluster associations in India examine this potential for development and upgradation of such MSME Clusters with the use of Chinese financial and technological investment. This will lead to localised production of hitherto imported modern goods. Our field research shows that this has happened in the case of the Morbi Ceramic Tile Cluster (see Box).

Morbi Ceramic Tile manufacturing cluster adopts Chinese Technology

Morbi is an example of an old MSME cluster town. In 2009-2010 the cluster started importing Chinese machines to make vitrified tiles. Mr. Vipul Patel, owner of Caramia Granito LLP Tile Factory said when vitrified tiles came into the market a decade ago, for 8-9 years they used to import the big-sized tiles. He got an invite by China to a ceramic exhibition and also got exposed to the Chinese manufacturers at a Vibrant Gujarat event at Gandhinagar. In addition to continuing with the production of the old style tiles, they decided to import the Chinese machinery to manufacture the vitrified tiles in Morbi. Of late, Vitrified Tiles made by factories in Morbi are cheaper, so some Chinese are buying from here to sell in Indonesia.


Keda Machine Service Workshop, Morbi

Keda Industry of China is the 2nd largest equipment manufacturer for the ceramic tile industry. Keda set up its workshop in Morbi in 2017. Most factories in the Cluster have imported the Chinese Keda Machines for making vitrified tiles. Keda's Workshop was set up to provide after sales service and sale of spares and consumables to local industry. Keda industry wanted to open a machine manufacturing factory, but cannot do so because their supply chain is in China.

Out of 1000 factories in this cluster, 200 are Keda clients. The main Keda Company in China has 2 subsidiaries: Keda and HLT. HLT has 300 clients in this cluster. Apart from this, there are 20 Chinese companies operating and competing in this cluster to provide after sales service. They don't have a factory-workshop and office campus like Keda, but operate out of a hired house in the town and their Chinese salespersons make regular visits. During our visit in March 2019, the cluster was facing shortage of orders due to the economic slowdown caused by demonetisation and GST.

Mr Manoj Kewalramani[30] of The Takshashila Institution recommends **Indian-Chinese Joint Ventures (JV) for MSMEs**, so that the Indian partner can handle dealing with the complexities of the Indian manufacturing and social ecosystem.

4.2.2 Position "Make in India for the World" as the theme for new industries[31]

Vivo's plant in Greater Noida

https://www.theweek.in/theweek/business/2018/12/21/dragon-on-the-prowl.html

Three hundred factories making electronics goods (smartphones & components, LED and TVs) have started operations in India. However, the majority of them are located at Noida-Greater Noida-Gurgaon-Manesar stretch which is ~1500 kms away from a major seaport. There is another cluster in Sriperumbudur and Sri City which is coming up as the focal point in the South.

Efforts should be made to locate them in zones that are cost competitive from an export point of view. For this, we have to develop country-specific industrial parks in PPP mode in coastal states, incentivise industrial real estate innovations like Factory on Rent or Built to Suit in coastal states.

Fourteen **Coastal Economic Zones** (CEZ) have been identified along the coastline of the country in the National Perspective Plan of the Sagarmala Programme. These must be fast-tracked with appropriate policy interventions in place. CEZ with incentives and facilities similar to those in SEZs would help in attracting investments and in turn boost both exports and domestic production.

Similar efforts should be made for attracting investments in Lithium Ion batteries, Electric Vehicles, robotics and other advanced sectors. As of now, our domestic demand is not enough to attract large scale factories.

Strive to make Domestic Champions, wherever possible: India should avoid tendency to let foreign owned companies tap opportunities in the global trade, by using it as a base for last-leg assembly. Domestic champions holding new positions in Global Value Chains (GVCs) can help us retain our competitive advantage in times of disruptions. Incentivise such endeavours by offering:

- Low cost capital/tax incentives to Indian businesses willing to diversify into strategic sectors/industries.
- Encourage foreign/Indian OEMs to develop Tier 1 or Tier 2 Indian-owned suppliers by aligning production subsidies to development of local vendors.

[30] Manoj Kewalraman, Fellow China Studies. Takshila Policy Institution Bengaluru. Prior to that, he spent over five years doing contract manufacturing in China for an Indian company and as a journalist in China.

[31] CHINESE INVESTMENTS IN INDIA, Divay Pranav, Senior AVP, Invest India, JANUARY 2019

4.2.3 Chinese industrial parks in India[31]

China branded parks can eliminate the time wasted by project teams in identifying suitable locations for factories in India, and eliminate many challenges associated with transferring or leasing government land to Chinese developers. As these parks will be developed keeping in mind the requirements of medium to large scale Chinese factories, Chinese can do the job of projecting India opportunities to their own people better than the Government of India's ministries, investment promotion agencies, state government agencies, etc. **Recommendations for implementation are listed below:**

- Chinese support in promotion and facilitation, rather than infrastructure development
  A good reference point is the model of Japanese Industrial Township (JITs) at 12 locations in 9 states where land acquisition, planning and infrastructure development is executed by state industrial development corporations or Indian private developers. JETRO (Japanese Trade and Investment Body) acts as a partner to Indian state governments in promotion of the zones and facilitation of interested investors.

  Likewise, the Government of India can advise Chinese government to adopt a similar model and appoint one of their agencies such as CCPIT, CASME etc. to collaborate with state governments or Indian private developers in identifying potential investors. (Although, CCPIT chapters of Beijing, Sichuan and Yunnan are in the process of opening offices in India they are still not playing an active role in helping Chinese enterprises in India).

- Solicit interest from interested Indian states
  So far, Chinese developers have selected Indian states for setting up industrial parks or mixed-user townships. In some of the cases, Indian states did not find the proposals submitted by Chinese developers in line with the state's developmental strategy. As a first step, the Government of India should finalize a term sheet with Chinese government to freeze all expectations from both Indian and Chinese side. A few items could be:

  - Land size (range) – Relatively smaller size than China i.e. 200-1000 acres
  - Land transfer terms (lease/freehold)
  - Proximity to sea ports/airports/national highways/railways
  - Profile of target industries
  - Land use plans (commercial/residential/industrial)
  - Utility infrastructure (power/water/natural gas)
  - Availability of labor pools
  - Responsibility of state vs developer
  - Potential development & revenue models Joint development agreements, upfront sale
  - Broad timelines and milestones

The Government of India can conduct a survey to identify states that can fulfil the requirements from Chinese side and are willing to fast-track the project.

Chinese industrial Parks : Two MoUs signed with Gujarat government in the run up to the Modi-Xi meet at Chennai (October 2019)	
Gujarat government signed MoU with CASME to set up a China Industrial Park at the Dholera Special Investment Region (https://www.financialexpress.com/ Oct 2019) The MoU is estimated to attract Rs 10,500-crore investment by Chinese SME units in pollution-free, high-tech areas and create 15,000 direct and indirect jobs at local level. It is the follow-up action of Chinese President Xi Jinping's visit to Gujarat in 2014 and visit of a high-level delegation from Gujarat to China 2015. Chief minister Vijay Rupani said the MoU is likely to bring FDI from China in large quantities as Chinese firms are expected to set up units by 2022. Chinese investors would also get concessions being offered by the Centre. Besides, they would get benefits under solar energy schemes for the MSME sector announced by the Gujarat government," said Rupani. As per the MoU, CASME will promote Chinese industries and develop Dholera as a major investment hub. Dholera Industrial City Development will give permission to Chinese investors to develop infrastructure for plug and play.	**Chinese SME body (CASME) acquires 200 acres for industrial park project in Gujarat** (https://www.thehindubusinessline.com/ June 7, 2019) More than four years after signing the MoU in 2015 (at the Vibrant Gujarat Global Summit) for a Chinese industrial park the ambitious project will finally see the light of day. About 200 acres at Sachana village in Ahmedabad district, has been procured by a private entity named the CASME Industrial Park Development Pvt Ltd, which is developing the Chinese industrial park there. They have a registered office in Ahmedabad with directors from China and India. The State government is not involved in the land acquisition, and is only facilitating the industries that are coming to the park. Sources involved with the project revealed that land acquisition and successive political churning in the State led to a delay in executing the project.

In several states, industrial incentive policies also need readjustment to enable occupiers in seeking state incentives as only State industrial development corporations were envisaged as developers while drafting the policy. For example: State to Developer (First Transaction) and Developer to Industrial Occupier (Second Transaction). As per industrial policies of states, incentives like exemption from stamp duty are offered only on first transaction. Some references to solve this problem could be drawn from SEZ policies that have clearly specified for both developers and units.

- Encourage collaboration between India and foreign private developers
  About 8-10 Indian groups own large land parcels across major industrialized/coastal states such as Tamil Nadu, Haryana, Maharashtra, Gujarat, Rajasthan, Andhra Pradesh, Odisha, etc. These developers have experience of developing industrial parks and are keen to collaborate with Chinese organizations in developing industrial estates. A few examples of large landowners are:

  - *GMR Group: Kakinada, Andhra Pradesh (~5,500 acres), Krishnagiri, Hosur (~360 acres)*
  - *Reliance Model Economic Township: Jhajjar, Haryana (~2,000 acres)*
  - *Sricity: Chittoor, Andhra Pradesh (~3,000 acres)*
  - *Attivo Economic Zone, SREI Infrastructure : Tuticorin, Tamil Nadu (~2,500 acres)*
  - *TATA SEZ and DTA — Gopalpur, Odisha (~3,000 acres)*
  - *Adani SEZ : Mundra, Gujarat (~18,000 acres)*
  - *Mahindra World City : Jaipur, Rajasthan (~3,000 acres)*

  Some of these land parcels are suitably located for export-oriented units that require access to cheaper labour resources. Example, GMR Kakinada leased 5 acres of land to Chinese firm Pals Plush that manufactures soft toys for Hasbro and exports to the US. Pals Plush employs about 1,500 workers, 95% of whom are women. GMR Kakinada, Attivo, Adani SEZ, TATA SEZ are in close vicinity of ports and can attract factories moving out of China due to the US-China Trade War.

- Steer Chinese developers toward Tier II/III locations in India
  So far, Chinese developers have preferred to develop mixed-use townships or industrial parks near large cities in India such as Dalian Wanda Group (Kharkhoda, Sonepat about 60 kms from Delhi), CFLD (Sohna about 40 kms from Gurugram city centre). Mixed use townships near major cities ensure good offtake of residential, commercial and hotel inventory. Also, locations closer to big international airports are convenient for foreign visitors and executives.

  But, finding large land parcels at affordable rates and access to cheaper labour resources emerges as a big challenge. The Government of India should think about pushing the industrial park projects to relatively cheaper (both capex and opex) locations near Tier II and Tier III cities. Also, this will help in attracting export-led Chinese units which often find Vietnam, Bangladesh and Malaysia more competitive than India.

Tier II cities join the million dollar-plus investment club

In the last five years Bhopal, Vadodara, Jaipur and Nagpur to name a few, are cities to look at as an investment destination in India. According to a recent report by the Smart City Council, 18 new cities with multi-million dollar foreign investments have emerged. Besides the emergence of these new investment destinations, there are 72 new class I towns vying for investments. It is also reflective in the evolving FDI landscape in India: Smaller cities surged by 79 percent compared with just 21 percent in metropolises in total FDI.

(Extract from: Government and Public Sector, E&Y India, March 2016, Gaurav Taneja)

In addition, participation could be invited from Chinese investors in other industrial corridors such as Chennai-Bengaluru Industrial Corridor (where Tumkuru, Karnataka; Ponneri, Tamil Nadu; Krishnapatnam, Andhra Pradesh have been identified as the industrial development zones).

4.3 Exporting to China

4.3.1 Focussed selection of products/sectors

- **Pharmaceuticals and IT**

  Indian companies continue to have a range of non-tariff barriers in China particularly in IT and pharma, where a lack of transparency in regulatory policy has hindered Indian firms. The Chinese Consul-General, Mumbai said India is not using **the strength of its service and software industry strength to get a bigger market footprint in China.** India is too focused on Europe and the USA.

  A strategy paper (May 2019) by the Commerce Department[31] says that Indian pharmaceutical firms face prolonged and unpredictable timelines for drug registration. They are asked to submit detailed clinical trial data and reveal the drug formulation process at the time of registration. The ministry should look at **establishing an interface between the Food & Drug Administrations of India and China for conduct of regular training programs** on regulatory standards and processes of filing and **relaxing the product registration time to a year from 3-5 years.**

- **World Trade Centre lists 20 products**

  A Report by MVIRDC World Trade Centre Mumbai[32] recommends India can explore an annual USD 82-billion export potential in twenty products to China. Indian exporters have a competitive advantage as far as these twenty goods are concerned. Currently, India meets only 3.3 per cent or USD 2.7 billion of the total annual import demands of USD 82 billion for these 20 products in China. These goods constituted about 17 per cent of India's exports to China in 2018. Electrical equipment, tobacco, iron and steel, ferro alloys, parts of aircraft, engines and other auto-components,

[31] //economictimes.indiatimes.com/articleshow/69490973.cms

[32] https://economictimes.indiatimes.com/news/economy/foreign-trade/india-can-explore-usd-82-billion-export-potential-in-20-products-in-china-report/ articleshow/ 73073651.cms?utm_source=contentofinterest&utm_ medium=text&utm_campaign=cppst jan 2020

benzene, frozen boneless bovine meat are some of the product segments out of the 20 in the list.

In order to realise this untapped export potential,

- India and China must exchange trade delegation with members from these identified sectors.
- We must create awareness on this opportunity among India's micro, small and medium enterprises producing these identified products
- Map Indian manufacturing clusters to the cities in China. This will go a long way in establishing the brand pull required to provide comfort to Chinese investors.

- **Cultural exports and services promotion**
  According to Retd. Ambassador Bambawale[33], trade imbalance cannot be only by enhancing Indian primary exports. He suggest the following sectors:

  - We must attract Chinese tourists in large numbers,
  - students for undergrad study so they can learn good English and go for higher studies to the US, etc.
  - export Indian films, Yoga and other products/services of our creative and cultural industries

Chinese tourists are among the biggest outward travellers. Indian government is proactively worked on making India a preferred destination. For eg, the Buddhist circuit can be developed as a key attraction.

Another sector with potential is media and entertainment, going by the number of Indian films that are enjoying huge success among Chinese movie-goers. So far, Bollywood production houses focused on catering to Indian diaspora settled in foreign countries; whereas, in China it's the indigenous audience that has accepted the Indian content. China offers a great business potential for Bollywood with its more than 25,000 screens (3 times of India) at (10 times) average ticket price.

India's culture and crafts are also gaining attention in China. Handicraft exports doubled from about USD 45 mn in FY15 to USD 90 mn in FY16-17[34]. As the Chinese consumer travels around the world more and has an increased purchasing power, the demand for international, more exotic goods such as silk scarves, embroidered and painted wall hangings and metal artwork have seen a high demand. "China is taking a lot of interest in our handicrafts because this is a dying craft there and it is also facing higher labour costs," said Rakesh Kumar, executive director, Export Promotion Council for Handicrafts.

In 2013 a MoU was signed between Indian Export Promotion Council for Handicrafts and the China Council for the Promotion of International Trade (CCPIT) to explore the possibilities of enhancing handicrafts from India to important markets of China[35]. Such initiatives can be reviewed and enhanced in keeping with developments over time.

[33] Mr. Bambawale, former Indian Ambassador to Bhutan, Pakistan and China.
[34] //economictimes.indiatimes.com/articleshow/57525885.cms (2017)
[35] https://www.thehindubusinessline.com/economy/India-signs-pact-with-China-to-boost-handicraft-exports

4.3.2 Focussed export strategies

For the identified products/Sectors, focussed export strategies must be designed taking into consideration the external environment of the particular export market, and can include:

- Skilling and training of workers with respect to specialized knowledge about the focus market, specific exports for promotion, language training, etc.
- Lack of standards and certifications have adversely impacted the export competitiveness of many industries. Mandatory standards for manufacturing with adequate testing and certification bodies and harmonizing Indian standards with global standards will contribute to enhancing export competitiveness. A National Standards Mission can be instituted for fast tracking standards setting in line with international benchmarks.
- Dedicated offices tasked with promotion of such products with special emphasis on markets could be set up on the lines of UK trade and Investment (UKTI), Buy USA etc. to engage in export promotion, providing information on sourcing, organizing business meets and linking Indian exporters with local buyers. Effective marketing should be undertaken by organizing trade fairs, buyer's seller meets, seminars, roadshows and exhibitions for the top identified products. Attention must be placed on brand building and "Brand India" must be promoted through various campaigns ensuring support and large-scale participation in the key markets.

  The brand building initiatives must be integrated with India's commercial missions abroad through structured engagements with diplomats. To incentivize greater marketing of products overseas, income tax deduction on marketing expenses should be doubled.

4.4 Facilitating India-China engagement (G2G, P2P, B2B)

Political relationships between China and the host country seems to matter to Chinese managers. This could be due to the important role the state plays in the Chinese economy, particularly in promoting the outward expansion of Chinese enterprises and the engineering of selected industries at home.

Chinese provincial economic priorities play a critical role in deciding the limits of their interactions with their Indian counterparts. There has been an increasing mobilisation of provincial party secretaries and officials on trade missions to India. Also seen is a new dynamic, where Chinese municipal and prefectural-level entities are seen exploring possibilities of tie-ups with any of the federal tiers in India.

Chinese sub-national business delegations to India

Yunnan, Jiangxi, Guangxi, Zhejiang and Gansu provinces saw Party Secretary-led business delegations in 2014 as part of the trend for "going out" to India. The Zhejiang delegation signed 11 cooperation projects and contracts worth US$2.5 billion (Livemint 2014)[36] . In December 2014, the Baoshan Municipal Committee of Yunnan visited Kolkata and Guwahati to explore opportunities for economic and trade linkages between Yunnan province and India's Northeast as well as between Baoshan –a prefecture-level city –and Northeast India, specifically.

In 2013, the Jiangxi provincial CCPIT Council showed interest in holding the India-China Business Investment Forum with the support of the Indian Embassy in China. Other provinces in China are also following this trend and hosting events to begin their engagement with India. The Xinjiang Uygur Autonomous Region Chamber of Commerce, Fujian province, the Shanghai municipality's CCPIT and cities such as Taizhou in Zhejiang province have already organised such events.

Manoj Kewalramani writes his [37]Impressions from China Based on My Recent Visit: "there's very little that's organic about the India-China relationship...what's therefore needed is for engagement to be channelised through lower levels of government and society, such as collaboration among businesses, partnerships in technology development, sharing of experiences in urban planning and management and so on. For this model to be effective, it is better if cities and provinces, as opposed to the central leadership, take the lead. Importantly, there appears to be an appetite for this developing in China, but much work needs to be done for such cooperation to take shape."

Cooperation between India and China at sub-national levels is still at a nascent stage. This is a result of a number of factors, including the strategic mistrust that characterizes bilateral ties and inward-looking nature of state leaderships and bureaucracies in India. However, the past few years starting 2013, have seen some momentum towards greater paradiplomacy and people-to-people engagement.

4.4.1 Mechanisms for facilitating India-China engagement

Invest India is the national investment promotion and facilitation department established by the Indian Ministry of Commerce & Industry. Chinese investors can avail the services of Invest India without any cost.

CII (Confederation of Indian Industries) has an office in China. CII has organized Indian delegations to China comprising industry and government people, depending on the theme.

FICCI (Federation of Indian Chambers of Commerce and Industry) has an Executive Director based in China.

ASSOCHAM (Associated Chambers of Commerce & Industry) and the SME Bureau China had signed an Agreement in 2012.

[36] (TOI 2014; CGIS 2014; CCPIT-GS 2015; CCPIT-SC 2014b; Guangxi News 2014, CGIS 2013; Xinhua 2013).
[37] Fellow China Studies, Takshila Institution Bengaluru, Weekly bulletin "Eye on China" Feb 2019

China doesn't have any formal organization set-up to help Chinese businesses in any foreign country unlike several other FDI source countries. CCPIT (China Council for the Promotion of International Trade), a Chinese national body and FICCI have formed an India-China Committee through an MoU to provide practical trade and investment promotion services. The MoU was renewed in January 2019 between CCPIT Vice Chairman and Chair of India-China Committee at FICCI, New Delhi.

In China every Industry has an **Industry Association** (e.g. Home Appliance Industry Association and so on). It is important to include them in the consultation.

Sister Cities (8 pairs) and **Provinces** (2 pairs): The two countries signed eight pairs of Sister-city agreements (Delhi-Beijing, Bengaluru-Chengdu, Kolkata-Kunming, Ahmedabad- Guangzhou, Chennai-Chongqing, Hyderabad-Qingdao and Aurangabad-Dunhuang) between the years 2013-2015. The Gujarat- Guangdong and Karnataka-Sichuan Sister-province agreements were signed in September 2014 and 2015.

Gujarat and Guangdong Sister Provinces

[38]Leading a 50-member business delegation from China's south-eastern province of Guangdong to India June 2019, Li Xi, Party Secretary, Guangdong CPC Committee, said the bilateral trade and relationship between the two countries is reflected in the ties between Gujarat and Guangdong. "We have streamlined 6 ideas for enhancing the scope of relations between the two provinces that include turning the Greater bay area (Hong Kong-Macau-Guangdong belt) and Gujarat into a hot bed of investments for major sectors, including science and technology, education, electronics, people exchange, tourism, and cultural interaction," he added. The China (Guangdong)-India (Gujarat) Economic and Trade Cooperation Conference took place in Ahmedabad in June 2019. It saw over 500 B2B interactions between Indian and Chinese companies.

A **State/Provincial Leaders' Forum** was established in 2015 during PM Modi's visit to Beijing. This was an important statement of intent.

A **High Level Mechanism** on Cultural and People-to-People Exchanges was established since Wuhan 2017, to put together a Plan of Action for marquee events in 2020.

Private Agencies and Platforms: Some Indian non-profit, membership-based agencies and forums have come up. They provide platforms and organise events in India and China, with the objective of facilitating India-China B2B and P2P engagement. They are promoted, patronised and headed by a combination of industrialists, politicians, retired bureaucrats, technocrats,

[38] https://www.thehindubusinessline.com/info-tech/chinese-sme-body-acquires-200-acres-for-industrial-park-project-in-gujarat/ article June 2019

Government and Industry Associations. They get direct or indirect support for their events from provincial/state or national government agencies, Industry associations etc., both Indian and Chinese. The ones we came across are mentioned below.

Name	Started	Activities, Events
India- China Trade Centre® (ICTC), www.ictc.org.in Okhla Industrial Area, New Delhi	1997	1st India–China Youth Entrepreneurs Forum 2019" March 2019 New Delhi. 4th India – China Technology Transfer Collaborative Innovation & Investment Conference, Feb 2020, Delhi
International Business Linkage Forum http://www.iblforum.com/ Poddar Chambers,Mumbai	2003	8th China-India Forum November 2019 Delhi (scheduled but called off), 7th CIF 2018, Pune 6th CIF 2017, Bengaluru
India China Economic and Cultural Council www.icec-council.org New Delhi.	2003	Organising, facilitating Delegation Visits. 7th South Asia – Sichuan Business Promotion Round-Table Conference, Chengdu, Nov. 2019. Organized session on "India Investment Promotion" 14th Shenzhen International Cultural Fair May 2018. Invited handicrafts experts from different states of India to set up booths to showcase traditional Indian handicrafts. Shandong-India Agricultural Products Trade Fair with FICCI, New Delhi March 2017. Bi-Monthly Magazine" India China Chronicle"
Inchin Closer Mumbai.	2010	Language and India China cultural consultancy

https://www.ictc.org.in/press-release-2019-india-china-youth-entrepreneurs-forum/

https://www.ictc.org.in/activities/

All such efforts can go a long way in building a more organic and cooperative relationship, strengthening it from the bottom-up. This is critical for deepening people-to-people engagement, a key objective that emerged from the Wuhan Summit 2017.

4.4.2 Recommendations to take forward India-China engagement[39]

In October 2019 the Takshashila Institution had recommended these steps to take forward India-China engagement:

Both sides should announce a timeframe to convene the next State/ Provincial Leaders' Forum. It is important to give teeth to this platform with parties outlining objectives and outcome expectations. For instance, the next forum could be arranged with a thematic agenda, such as urban governance or renewable and alternative energy projects in order to better direct cooperation.

Both sides should work towards a roadmap for establishing greater connectivity between major metropolises based on sectoral expertise. For instance, it is important to expand connectivity - physical and business - among cities that are hubs for technological development on both sides.

Both sides should announce plans to encourage and facilitate roadshows by provincial and city governments to attract tourists and students. Some of the ways in which New Delhi and Beijing can take the lead in this direction are by easing visa restrictions and working with local governments in launching online platforms in local languages to attract Chinese tourists. Another potential area for cooperation is facilitating university linkages in terms of infrastructure and joint development of education programs.

4.5 Steps for state governments to explore/identify Chinese investment

दैनिक भास्कर

प्रदेश में शीघ्र ही स्थापित होगा चाइना औद्योगिक क्षेत्र

जयपुर | राज्य में जापानी औद्योगिक जोन के सफलतापूर्वक स्थापित होने के बाद अब चीन की औद्योगिक इकाइयों की स्थापना की संभावनाएं प्रबल हो गई हैं। चीन सरकार की संस्था चाइना एसोसिएशन ऑफ स्मॉल एंड मीडियम एंटरप्राइजेज (सीएएसएमई), इंडिया-चाइना इकोनोमिक एंड कल्चरल काउंसिल के प्रतिनिधि मंडल तथा चीन की कम्पनियों के प्रतिनिधियों ने 27 अगस्त को राज्य सरकार के उच्च अधिकारियों के साथ बैठक की। बैठक में अरविंद मायाराम, आर्थिक सलाहकार मुख्यमंत्री, डॉ. सुबोध अग्रवाल, अति. मुख्य सचिव, ... एवं गौरव गोयल, प्रबंध निदेशक, रीको एवं आयुक्त, बीआईपी ने भाग लिया। गौरव गोयल ने चीनी प्रतिनिधि मंडल को राजस्थान में औद्योगिक निवेश की अपार संभावनाओं से अवगत कराया। चीनी प्रतिनिधि मंडल ने प्रस्तावित चाइना औद्योगिक क्षेत्र की रूपरेखा से अवगत कराया। इस औद्योगिक क्षेत्र में मुख्यतः इलेक्ट्रोनिक्स, घरेलू उपकरण, फर्नीचर, हैंडीक्राफ्ट इत्यादि उद्योग स्थापित होने की संभावनाएं हैं। इससे राज्य में निवेश के साथ-साथ रोजगार के नए अवसरों का सृजन भी होगा। चीनी औद्योगिक क्षेत्र के विभिन्न घटकों यथा स्थान, वित्तीय ...

Consultation at RIICO, Jaipur

We met with several senior State Govt. officers to get information on their State's vision for developing the manufacturing industry. The Government of Rajasthan, having a successful Japanese Industrial manufacturing Cluster at Neemrana, expressed interest in the possibility of developing a Chinese Industrial Park.

A State level multi-stakeholder consultation was organised in Jaipur, hosted by the State Government. Details of the proceedings of the consultation held at RIICO, Jaipur in August 2019 are given in Annexure 5. Chinese industry representatives and agencies in India that we had met during the Research, participated in the Consultation. Participants included Senior officers of Govt. of Rajasthan Industry Department, Chinese Representatives, ICEC and the RGICS study team members as research observers.

[39] Takshashila Discussion Document : Modi-Xi Informal Summit:07 October 2019 by Manoj Kewalramani

Based on our observation of the proceedings, and discussions with a range of stakeholders across the country during the research, **we recommend a step-by-step process** that can be followed by both investment seekers and prospective investors. This can result in effective outcome for industry identification and partnership formation.

4.5.1 Chinese delegations visiting states in India and making it effective

It is recommended that a State can share following information with Chinese/ Indian facilitating agencies:

A. What are the existing industrial clusters within the state? What are the investing options for upgrading existing industries and developing a new industry.
B. What are the geographic advantages that the state possesses? (eg. export-oriented industries are normally being set up close to ports).
C. Whether the state government can make industry-oriented policies to encourage the entire supply chain.

Chinese representatives suggested giving above quality data to satisfy the queries raised by Chinese companies. This can make the outcomes of the delegation visits more fruitful. If there is a mutual interest based on this information, the State can invite the delegation and discussions can be taken to the next level.

4.5.2 Steps and process framework for investment seeking

It has come out clearly that it is important that the State or central Government carry out the investment-seeking with a clear plan and steps. There have been past cases where a big delegation of Chief Minister, Ministers and bureaucrats goes to China, having only general meetings and making general PPTs. Often the bureaucrats do not get or know how to plan the details. They have big consultants like E&Y, KPMG etc. who also are not briefed to guide them specifically except making good PPTs.

A planned process with a step-by-step approach, can result in effective identification for both investment seeker and prospective investors. We provide a framework for this, in the Table below.

	A step-by-step framework for State Govt. to explore Chinese investment				
	1	2	3	4	5
	Indian State to identify investment need	Determining domestic factors	Determining Chinese investment potential	Agencies to discuss with	
				In India	In China (Delegation planning)
1	Which Sector we want to develop and explore investment for?	GoI policies & priorities	What is the Chinese Govt. Policy and priority move out the identified industries and products	Govt. of India Ministry, Dept., Agency& Departments, Invest India China Desk	Indian Embassy and its Consulates in Shanghai, Guangzhou
2	Identify Product or Service categories	State policies, Comparitive and competitive factors of the State	Which are the Provinces, Prefectures where these industries/services are located? What are their priorities and policies? Would the Govt. here have an interest to invest in India?	Chinese Embassy and consulates	Chinese govt. representatives at national level and provincial/prefectural level where the concerned Industry is located
3	Is it for a) Localise production for domestic demand (b) For International Export (c) Both (a) & (b)	Views of Industry/Sectoral/trade associations and experts	What are their priorities and policies of the Sectoral Associations? Would the Govt. here have an interest to invest in India?	Sectoral/industry/ Cluster/Trade Associations, Technocrats and Sector Experts, Industry leaders	Concerned Sectoral/industry/ Cluster/Trade Associations
4	Growth/Employment priorities		If there is a match of products and interest to invest in India, what is the reason?	Think Tanks, Policy Research Institutes, Academic Institutes doing China-centric work	Chinese office of CII, FICCI Policy Research Institutes, Academic Institutes doing India-
	Some points to Note		a) Make for India market b) Make for China Market c) Expand for Global Market d) Share technology/Innovation	India-China G2G, B2B, P2P networking platforms and consulting organisations	*A 'direction' or perhaps a 'gentle nudge' from the powers that be is often required in many issues which are otherwise apparently apolitical. Stakeholders in various sectors in China take such unspoken words of their senior leaders as 'guiding principles' while formulating their trade & commercial strategies. Things work better based on guanxi, literally, a sort of 'dynamic in personalised social networks/ personal relationships/ contacts' rather than by rules and regulations.*
	** Cultivating strong (G2G) relationships can be critical to attract more FDI from China.*		e) Govt. is push out		
	** Chinese lean heavily on interpreters to both hear from and talk to*		g) effect of US-Sino trade war	Chinese Govt. representative Agencies and Private Consulting orgns. and Experts having offices in India, visitng india or delegations visiting India	
	** China has universal and extensive use of digital & social media,and social media influencers*				
	** Chinese prefer to be among themselves and fellow Chinese in an alien land*			Chinese Enterprise Associations in India	

1. The first column is for a state to identify which sector and products/services for which it wants to develop the industry in the State and the strategic approach to take.

2. The second column lists the information needed to analyse, and determine how it will impact the sector/product choices identified by the State.

3. The third column lists information needed and issues to explore and analyse potential for Chinese investment. This can determine if there is a match with any identified Sector/products and the basis of initiating a discussion.

4. Column four lists various sources that can be consulted in India to get answers to queries listed in Column 3 about China's India investment priority, strategy and sources.

5. Column five lists various sources that are consulted in China to get answers to queries listed in Column 3 to invest in India and building interest for it. Column 1-4 also gives the preparatory processes and work to be done, before deciding and making a plan for inviting Chinese Delegations or undertaking a delegation to China. A few steps practical suggestions for a visit of Indian delegation visit to China are[40]:
    - Ministerial meeting may be followed by a seminar, where senior Chinese government officials, particularly the provincial level (municipal level, in the case of Beijing and Shanghai), Sectoral Industry Associations, private sector, local journalists, and senior officials of India's local diplomatic mission and other stakeholders as deemed necessary by the latter may be invited to.
    - PowerPoint and video presentations must have subtitles and voiceover in the Chinese language. These can be done in India as such services are prohibitively expensive in China. That is, they should have everything ready in writing with a Chinese translation. Chinese students studying in Indian Universities (eg. Jawaharlal Nehru University, New Delhi, or elsewhere) may be a viable option for subtitling and voiceover.

[40] Report on "A Chinese Solution to Kerala's Tourism Sector Woes "by Centre for Public Policy Research, Kochi (2019)

5 Trust and Security issues between India and China

5.1 Visa issues

“India is China’s fastest growing demand base for visas,” said Mr. Tang Guocai Consul-General of China in Mumbai. “There has been a steady growth of demand for China Visas at Mumbai Consulate which covers Western States and Karnataka. For the first time it has crossed 100,000”. China wants to increase one more visa office to meet this growing demand and a direct flight from Mumbai to Guangdong and Shanghai is needed.

On the side of Indian government, in March 2019 issuance of business visas was simplified for Chinese businesspersons with e-visa facility. They can now avail a one-year multiple entry e-business-visa, with a provision to stay up to 183 days without any registration with local authorities. From October 2019 onwards, Chinese nationals can apply for an e-Tourist visa (e-TV) of a 5-year validity with multiple entries. India announced this at a time when the leaders of the two nations had met for the second informal summit in September 2019.

Chinese professionals find the process to get an employment visa in India cumbersome and difficult. The time taken for providing an employment visa can be three months or more. Reporting to the FRRO (Foreigner Regional Registration Offices) is not an issue, but the process is very long. Chinese who stay in India for five years have to go back to China to renew their employment visa. During that period, there is a high possibility that their visa renewal may be rejected.

Chinese workforce top seekers of indian work visas among countrys neighbours

Chinese nationals are the largest group among India’s neighbours when it comes to the workforce who apply for an employment visa to work in India. A total of 1,089 Chinese nationals had registered on an employment visa in 2019.

Maharashtra and Karnataka saw an increase in the number of Chinese nationals working in these states in 2019 compared to 2018 when it had 203 and 122, respectively. In Uttar Pradesh also it rose by almost double in 2019 compared to 2018’s figure of 85. Maharashtra has the highest number of 203 Chinese nationals working followed by Karnataka (171) and Uttar Pradesh (164). Interestingly, Haryana which had 339 Chinese nationals working in 2018 had not a single person from China last year. Last year, Odisha (45 to 104) and Rajasthan (43 to 108) also attracted more Chinese nationals to their states to work, as their numbers rose. One of the sharpest rises was in Jharkhand, which saw a rise from four in 2018 to 68 last year.

(Deccan Herald March 2020)

It was explained that only the Chinese who have lived in India for many years seek the Indian visa for a long time. They have adjusted to living in India and also have an understanding of the Indian business environment. Such Chinese can be very good brand ambassadors for India. With their accumulated experience in India and understanding of the local market, they will encourage their countrymen to invest in India. Such Chinese also understand the Chinese mind and can correctly address the fears and concerns of the Chinese who are looking at the Indian market. The Indian government can encourage such Chinese to stay here for a longer time.

5.2 Trust deficit and insecurity

5.2.1 Trust deficit about China and the Chinese among Indians

At the Government level – both national and States, officers expressed that India does need to be aware of China's deep state and PLA connection.

CII-Bengaluru representative said that Chinese companies/investors in India are looked at with suspicion. They complain that the Intelligence Bureau (IB) asks them difficult questions. Even the Indian IT sector companies were hesitating in hosting a Chinese delegation from Shenzhen because they did not trust the Chinese to respect IPRs. This is in spite of the fact that Indian IT companies have investments and significant presence in China.

There are Japanese and Koreans working and living in Tamil Nadu. You will see them in the city markets, restaurants and other public areas. There are some Chinese manufacturers in Sriperumbudur, but you will never see the Chinese mixing around like those of other nationalities. Chinese keep within themselves, they don't come out in the open, we were told.

The GCEA representatives said most of the Chinese in Gujarat live in Ahmedabad and Baroda. Non-Veg, sea food, etc., is purchased from the Muslim markets. They cannot drink freely due to prohibition in the State. Most (99%) Chinese have come alone without their families. This situation happens only vis-à-vis India, not for other countries.

Prof. Joe Thomas said there is no organic relationship between India and China. We have organic relationships with other countries – e.g. India with the Middle East, USA, even Europe due to language (English), religion, diaspora, food, culture. Similarly for Chinese, the natural inclination is towards Japan, Korea, Malaysia, Thailand, even the USA due to Chinese diaspora. That makes it difficult for China to invest in India as an "alien" land and fit in with the culture.

5.2.2 Chinese insecurity about investing and staying in India

Mr. Tang Guocai said "Maybe because India and China are geographically close and share a boundary, so China is seen as an adversary whereas a country which is far away is not viewed as such. When Doklam happened, all work came to a standstill. There is a basic safety-net missing for investment from China. In order that the Chinese investment in India is not at risk, they invest via Singapore."

The amendment of the Enemy Property has made Chinese investors jittery about the safety of their assets or personnel as there is lack of clarity on it. The political turmoil between India and China (such as the Doklam standoff) affects and discourages investment in India. When the Pakistan-India issues come up in the news, Chinese people sometimes wonder whether it is safe to invest in India in case an India-Pakistan war breaks out. Most people in China know very little about India and there is a lot of negative reportage and news about India, and that is something that needs to be worked upon.

5.3 Chinese investment and controlling stakes in India's digital sector

China's tech giant companies and venture capital funds have become the primary vehicle for investments in India – largely in tech start-ups. (refer Section 2.2.1 above). China's strategic investments in India's digital sector and data-oriented services namely Smartphone Apps, Browsers and Streaming Services are sizeable investments with among the topmost market shares in India.

The investments are made by Chinese behemoths like Baidu, Alibaba, Tencent, which are multi-billion-dollar global players, alleged to have deep ties with the Chinese Government. The infusion of capital has allowed hundreds of Indian start-ups to scale up. But are there wider, longer-term concerns of Chinese companies acquiring controlling stakes in certain start-ups in certain sectors, and if so, how do we regulate the process? Chinese investment bring up three concerns for India: data security, platform control and propaganda[41].

5.3.1 Data security and access to data

India is one of the largest and fastest-growing markets for digital consumers. With 560 million internet subscribers in 2018, this is second only to China. As with the global controversy generated by China's 5G investments, Chinese investment in India's digital sector also has data security implications in the following ways:

Malware: In 2017, out of 42 mobile applications, UC Browser, SHAREit, UC News, and others listed by the Ministry of Home Affairs, are claimed to have the potential to carry out a cyberattack against the country.

Search services: According to a 2015 report by the University of Toronto, Alibaba's UC Browser has "several major privacy and security vulnerabilities that would seriously expose users of UC Browser to surveillance and other privacy violations".

Data: A study conducted by Arrka Consulting shows that Chinese apps in India ask for 45% more permissions than the number requested by the top 50 global apps. Such apps collect large amounts of personal data from users. Deactivation of a user's account does not result in data being returned to the user or deleted from the app's server. In fact, these details are often shared with third parties.

[41] https://www.gatewayhouse.in/wp-content/uploads/2020/03/Chinese-Investments-in-India-Report_2020_Final.pdf

Chinese companies such as Alibaba and Tencent have their own ecosystems, which include online stores, payment gateways, messaging services, etc. An investment by a Chinese firm can pull the Indian company into this ecosystem, which may mean loss of control over data. Western companies have similar access to private data too – but there is national and global oversight and more transparency in their systems.

5.3.2 Platform control

Chinese internet – almost an intranet restricts outsiders and is closely monitored and controlled by the state. Companies like Alibaba and Tencent are enablers and beneficiaries of this system.

An ecosystem such as this controls access to end-users; it means other companies (retailers, financing firms and media) will have to follow the standards/technologies prescribed to them. Alibaba/Tencent will be in a position like Google – they can decide which firm will succeed or fail by controlling user access, using their own technologies. The Indian economy could use Chinese tech for critical applications.

5.3.3 Propaganda, influence and censorship

The Chinese government keeps a tight control over its media at home. Investments in Indian social and other media (including those in regional languages) as well as startups could lead to a subtle push toward the Chinese narrative on bilateral issues, depiction of China and suppression of criticism. For instance, TikTok censors topics that are sensitive to the Chinese government. This kind of influence by a foreign totalitarian government is detrimental to an open and free society.

Chinese App investments in India need to be viewed with caution, considering the increased penetration of smartphones and apps, especially in the country's Tier-II and Tier-III cities. The potential to influence Indian minds is massive.

While it is important to attract investors, it's also important to set clear requirements based on our interests[42] . Bytedance's short video app TikTok was banned but subsequently lifted, although given the serious issues that remain with the content, the company has to pull up its socks. Such instances are actually a really good opportunity to demand greater transparency, regulation, investments and job creation in India by Chinese giants. A senior MEA bureaucrat (Ministry of External Affairs) said India does need to be aware of China's deep state and PLA connection. That is why India does not open Chinese investment in certain sectors and categories e.g. for switchback equipment.

5.3.4 Huawei

India has yet to take a final decision on allowing Huawei into India's 5G telecom. In 2019 the Indian Telecom Minister gave it the green light to participate in the

[42] https://www.thequint.com/voices/opinion/opinion-china-india-economic-partnership-indian-startup-ecosystem

upcoming nationwide 5G trials only. Whether Huawei is allowed to participate in the final deployment or not is still a question mark.

If there are no security vulnerabilities found in Huawei's equipment ahead of the 5G trials, it would be good news for both the Indian consumer as well as the domestic industry. It would provide greater clarity to telecom companies in India like Airtel, Vodafone and Reliance Jio that have been delaying their 5G rollout because of inability to decide on which manufacturers to choose from (Ericson, Nokia and Samsung being some other original equipment manufacturers in competition).

On the other hand, the Indian consumer, who is extremely price sensitive, would benefit from the cheaper equipment provided by Huawei – that is if that price benefit is transferred down the supply chain. The security concerns are very much real, and should not be dismissed without a clear examination.

5.4 Policy recommendations for screening and regulations[43]

5.4.1 A centralised FDI screening mechanism for the IT-BPO industry:

The investment screening mechanism, recently introduced in the EU, the EU Foreign Direct Investment Screening Regulation (FDIR), is a non-binding cooperation and oversight system which encourages sharing information across member states on the potential of certain investments to affect national security and interests.

Adopting a similar screening mechanism for the IT-BPO industry in India will protect citizens' sensitive personal information from being shared through apps, browsers, search services and other critical technology and infrastructure in India, keeping in mind direct and indirect Chinese investments in India.

5.4.2 Inter-agency committee to review foreign investments involving collection of sensitive personal data:

India can devise a body akin to the Committee on Foreign Investment in the United States (CFIUS). It can consist of members from the Ministry of Home Affairs, Department of Telecommunications, Department for Promotion of Industry and Internal Trade, Ministry of Information and Broadcasting, Ministry of Electronics and Information Technology and the National Security Council of India, to review foreign investments in India which calls for the collection of sensitive personal information. This can help tackle security threats in India.

5.4.3 Data localisation policy

A data localisation policy for regulating access to data, mandating data storage requirements and controlling cross-border data flows, needs to be put in place. Companies should be required to set up data centres in

[43] https://www.gatewayhouse.in/wp-content/uploads/2020/03/Chinese-Investments-in-India-Report_2020_Final.pdf

India to minimise the need for storing sensitive data on foreign servers. Data localisation measures will be effective in immediately taking down content which can foment sectarian trouble across India or the anti-India rhetoric in Border States. Such a policy will be an important step in handling security concerns in India caused by cyber espionage.

6 Recommendations for an Indian agenda

Currently with the ongoing COVID-19 pandemic and global economic and geo-political fallout, it is difficult to predict how the India-China engagement will play out after the crisis. However, the long term need to grow India's manufacturing sector and employment, and the need to balance the trade deficit with China remains. The issue of Chinese investment has to be seen both from existing and fresh investment points of view.

As observed by the Takshashila Institution[44], ensuring fairer access to the Chinese market should be made a key element in the relationship. Otherwise, the lack of economic and societal support for this relationship will continue to limit its prospects. The interest of Chinese companies in executing infrastructure projects in India is another important element in the calculation. While Chinese investments and project capabilities have contributed to our growth and efficiency, they cannot be divorced from the larger economic balance. Commerce with China cannot be left to business alone and must be approached as a strategic priority. It recommends the following four points for India to pursue;

1. **The declaration of a clear and stated target for the reduction of the trade deficit within a fixed timeframe.** Merely restating rhetorical positions on the desire for a balanced trade relationship is meaningless. Instead, India should call for trade negotiators on both sides to set a publicly stated target for deficit reduction and also identify key sectors that can be focussed on to achieve this target. This will not just commit both sides towards taking tangible steps within a defined timeframe but also motivate both bureaucracies to act.

2. **Increased Chinese investments in a range of sectors to boost exports and infrastructure development.** During President Xi Jinping's state visit in September 2014, China had committed to investing $20 billion in India over a period of five years. This target has not been achieved, although the pace of investment has picked up. It is important to take stock of this and identify means to expand Chinese investments.

3. **On technology cooperation** and the role of Huawei in 5G networks, India should frame the conversation within a broader framework of trade reciprocity. In this side the Indian side should argue against the Great Firewall, which by blocking platforms like Google, YouTube, Twitter and Facebook, also intentionally and systematically prevents Indian companies and individuals from profiting from the Chinese market. It effectively acts as a non-tariff barrier, discriminating against Indian technology firms and content creators. Status quo, therefore, is unacceptable, if the two sides are to deepen technology collaboration. Apart from trade reciprocity, the Indian side should also underscore that its decisions on new technologies are based purely on technical and security considerations.

[44] Takshashila Institution Discussion Document : Modi-Xi Informal Summit:07 October 2019 by Manoj Kewalramani

4. **On cyber governance and security,** initial steps in this direction can be taken in two areas, data localisation and cybersecurity.

5. **The idea of mutual FDI** for addressing global markets at global scale and quality should be explored, treating the two economies as linked to each other so that investment, technology and management may flow from either side, to capture global markets and create jobs and growth in both economies. This Report advocates a strategy that India and China should grow together, each doing what it can do best to capture global markets.

   There are around 125 Indian companies operating in mainland China in various sectors like information technology, manufacturing, textiles, food processing. The China India Institute, a Washington DC based leading research consultancy, has researched and analyzed the growing corporate linkages between India and China[45], and how winning in each other's markets is also making them stronger and whetting their appetite for further global expansion. The key lessons that emerge from these analyses are: the odds of success go up dramatically when executives adopt a global rather than local-for-local perspective. Investment should be for a global company with China and India operations as global hubs rather than periphery.

6. India should also proactively engage and work with China in the Cooperation on International Solar Alliance, the Shanghai Cooperation Organisation, and trans-border rivers and railway technology[46].

7. The RGICS envisions that greater cooperation and collaboration between the two countries in creating green economies will also go a long way in lowering carbon emissions globally. The two countries should collaborate on international negotiation strategies related to emission reductions and how those would be financed. They should also share their experiences in successful mitigation of and adaptation to climate change. This common vision towards clean energy and climate change will ensure increased trade opportunities between India and China.

[45] "The silk Route Re-Discovered" authored by Anil K. Gupta, Girija Pande, & Haiyan Wang, http://www.chinaindiainstitute.com

[46] https://indianexpress.com/article/opinion/columns/pune-china-india-relations-trade by Mr. Bambawale, former Indian Ambassador to Bhutan, Pakistan and China.

Annexures

Annexure 1a : Persons/Organisations met (December 2018 toSeptember 2019)							
1		2		3		5	
Industry/Sector Representative		**Govt., Policy**		**Consulting/Academic/Research**		**Chinese representatives in India**	
Name	**Organisation**	**Name**	**Organisation**	**Name**	**Organisation**	**Name**	**Organisation**
Vinod Sharma	CEHA, ELCINA & DEKI Electronics, Noida	Gautam Bambawale (retd. IFS)	Former Ambassador to China, Distinguished Prof, Symbiosis University Pune	Prof. Joe Thomas	China Studies Centre, Humanities Dept., IIT Madras	Amit Li	Ex Huawei, Draphant Group, Delhi. Member, China-India Chamber of Commerce & Industry
Gautam Nair	CII Textiles & Matrix Garments	Arvind Mayaram (retd IAS)	Economic Advisor, Govt. of Rajasthan	Manoj Kewalramani	China Centre, Takshila Policy Institute, Bengaluru	Yin Shah (Weidong)	HIGHLY Electrical Appliances Ltd, Gujarat
Anil Bharadwaj	Secretary General, FISME, Delhi	Vikram Doraiswamy IFS	MEA, Delhi	Mr. Sunil Rallan, Mr. Somi Hazari	Chennai Centre for China Study	Prof. Yinghong	China Centre, Jindal Global University, Haryana.
Sundar Ram	FDI consultant, Chennai	Mohd. Suleman (IAS)	PS Industry, GoMP	Vishal Kalia	E&Y (Bhopal)	Mr. Tang Guocai	Consul-General, Chinese Consulate Mumbai
Shreedhara, Mohan Ran	IMTMA , Bengaluru	Ms. Rujul Upadhyay	IndexTb Industries Dept., Gandhinagar, Gujarat	Ashish Dhawan, Piyush Jain	China India Foundation, Delhi	Zheng Bin	MD, ICBC Mumbai
							MCEA Chairman
Mr. Janakar	Chennai. Member of Indian Rubber Institute (IRI), All	Mr. Divay Pranav	Invest India, GOI, Delhi.	Arun Goyal	Academy of Business Services, Delhi	Yin Shah, HIGHLY India PVt. Ltd.	Gujarat Chinese Enterprise Association members
						Baosteel India Company	
Mr. Sunil Rallan	MD, Chennai FTZ pvt. Ltd	Chairman, MD & senior officers	Rajasthan State Industrial Development & Investment Corporation Ltd. (RIICO)	Mohammed Saqib	India China Economic & Cultural Council, Delhi	Daniel Yuan, CASME Indu	
						PINGGAO Group Power I	
Mr. Dangayach	Sintex, Ahmedabad			**Talks attended:**		Shaungma Machinery Inc	
					Delhi Gym Literature & Ideas	Maxwood Industries Pvt.	
Mr. Patel	Morbi Ceramics Associations			RC Bhargava,	Ex MD, Maruti Udyog Ltd	Keda Industries	
				Shyam Sharan	Retd. IFS, Sr. Fellow-CPR		
Vipul Patel	Caramia Granito LLP Tile Factory, Morbi			Dhruva Jaishankar	Brookings Survey of Indias Strategic Community	Ms. Gao Xiangyang .	Minister Counsellor (CPC) Embassy of China, New Delhi.
				I Ping	Meeting of Think Tanks at Delhi	Yin Weidong	Micro Enterprises (CASME) Investment Committee and CASME Industrial Park Private Ltd., Ahmedabad.
Neil Castelino	CII, Bengaluru					Daniel Yuan	
						Ms. Yan Han	Chairperson, International Business, Topline Consulting Group, Beijing/Gurugram
Mr. Somi Hazari	Transnational Strategy Group Chennai & Sri Lanka					Tony Chen	Yingke Global, India Country Director, Gurugram
						Wangjupeng, Huanghuajing	China Council for the Promotion of International Trade (CCPIT)

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Annexure 2: Successful Chinese investments in India

Figure 5 (a): Successful Chinese Investments in India

S.No.	Sectors & Preferred Locations in India	Successful Chinese Cos. in India	Indian Government Policy and Fiscal Support
1	Smartphones, Television & Component Industry Preferred Locations: • Noida-Greater Noida-Yamuna Expressway (Uttar Pradesh) • Tirupati-Chittoor-Sriperumbudur (Andhra Pradesh & Tamil Nadu)	Xiaomi (India Sales: $3.24 bn in 2018), OPPO, VIVO, Huawei ~15-20 component suppliers for smartphone – Hollitech, Xihi TCL, Xiaomi (TV segment)	• 100% FDI in Contract Manufacturing • 100% FDI in Single Brand Retail Trade • Preferential Market Access for domestic manufacturing • Incentives for domestic manufacturing and Exports
2	Automobiles & Auto Component (incl. Electric Vehicles) Preferred Locations: • Chakan-Talegaon (Maharashtra) • Bawal-Manesar (Haryana) • Sriperumbudur-Oragadam-Vallam Vadagal (Tamil Nadu)	MG Motors, BYD Auto, Coslight, Wangfeng Autowheels, YAPP Automobiles, Kingfa	• BYD biggest beneficiary of FAME Scheme for Electric Buses ○ 163 buses supplied to State Transport Corporations; 85 in pipeline • MG Motors received fast clearance for acquiring General Motors plant at Halol, Vadodara • Chinese Cos to gain from India's focus on Electric Vehicles across 4W, 3W and 2W segments
3	Consumer Appliances Preferred Locations: • Chakan-Talegaon-Khed-Supa (Maharashtra) • Bawal-Manesar (Haryana) • Noida-Greater Noida-Yamuna Expressway (Uttar Pradesh) • Sriperumbudur-Oragadam (Tamil Nadu)	Haier, Midea	• Haier eyeing $1 bn from India market. • India major market for consumer durables – Refrigerators, Microwaves, ACs, etc.
4	Construction Equipment Preferred Locations: • Chakan-Talegaon (Maharashtra) • Sriperumbudur-Oragadam (Tamil Nadu)	Sany, Zoomlion, Liugong, CRCHI	• Chinese majors doing well & expanding in India due to India's infra push • CRCHI supplied Tunnel Boring Machines for Mumbai & Bangalore metro • ZPMC major supplier for port equipment
5	Metro Rolling Stock	China Railway Rolling Stock Corporation (CRRC)	• CRRC won metro rolling stock/equipment orders worth $1 bn from Nagpur, Kolkata & Noida Metro

Figure 5 (b): Successful Chinese Investments in India

6	Optical Fibres Preferred Locations: • Chakan-Talegaon-Khed (Maharashtra) • Ahmedabad (Gujarat)	ZTT, Fibrehome, TG Advait and Hengtong	• Chinese Cos have won orders to supply optical fibre to India telecos including BSNL
7	Electrical Equipment (Power Sector) Preferred Locations: • Vadodara-Ahmedabad (Gujarat)	TBEA, Northeast Atlantic, Dongfeng Electric and BTW Atlanta	• Chinese Cos supplying to Indian Power DISCOMs • ~60-70 GW of Indian Thermal Power Capacity uses Chinese Equipment
8	Financial Investments Preferred Locations: • Bengaluru • Delhi NCR • Mumbai	Alibaba, Tencent, Hill House Capital, Shunwei Capital, Fosun RZ, NGP Capital	• India welcomed Chinese capital in Indian Startups. US & EU rejected • Chinese companies invested ~$8 bn in startups since 2015. • All major Indian unicorns have Chinese capital
9	Infrastructure Preferred Locations: • Pan India, especially near Metro Cities	Shanghai Urban (SUCG), Civil Engineering Construction Corporation (CCECC)	• CCECC wins civil construction contract of INR 580 crores for Delhi-Meerut RRTS • SUCG did tunneling with Delhi and Chennai metro • 3 Chinese contractors working on Phase 3 of Mumbai Metro • Jiangxi Tongqing worked on bronze cladding for Statue of Unity, Gujarat
10	Consumer Internet Preferred Locations: • Bengaluru • Delhi NCR	Bytedance (Tik Tok, Helo), Shareit, UCweb Cross border E-commerce: Club Factory, Shein, Aliexpress	• Sheer nos. of Indian internet users have fueled valuation for Chinese Apps. • Tik Tok has 120 mn active users in India, Shareit 200 mn, Ucweb 300 mn • Club Factory is 3rd largest e-commerce company in India. Handling 2 Lac orders per day. • Chinese apps also catering to vernacular audience in India. E.g NewsDog, online news aggregator has 40 mn users in India.

Source: Press Search; Primary Intelligence; Author's analysis

Figure 6: Chinese Capital in India Start-ups, Deals since 2015
Top Deals Only

Start-up	Investor	Year	Amount (US$ Mn)	Series	City
Flipkart	Tencent	2017	1400.00	Series J	Bangalore
Ola	Tencent	2017	1100.00	Series I	Bangalore
Swiggy	Hillhouse Capital Group, Meituan, Tencent	2018	1000.00	Series H	Bangalore
Snapdeal	Tybourne Capital Mgmt	2014	639.47	Series F	Delhi
Snapdeal	Alibaba Group	2015	500.00	Series G	Delhi
Ola	Didi Chuxing	2015	500.00	Series F	Bangalore
Paytm	Alibaba Group	2015	471.65	Series E	Noida
Paytm Mall	Alibaba Group	2018	452.85	Series E	Delhi
Delhivery	Fosun	2019	413.00	Series F	Delhi
BigBasket	Alibaba Group	2018	300.00	Series E	Bangalore
OYO Rooms	China Lodging Group	2017	260.00	Series D	Gurgaon
Ibibo Group	Tencent	2016	250.00	PE	Gurgaon
Paytm	Alibaba Group	2015	213.06	Series D	Noida
Zomato	Ant Financial	2018	210.00	Series I	Gurgaon
Swiggy	Meituan	2018	210.00	Series G	Bangalore
Paytm Mall	Alibaba Group	2017	200.00	Series D	Delhi
Jana Small Finance Bank	Tree Line Investment Mgmt	2016	175.90	Series F	Bangalore
Hike Messenger	Tencent	2016	175.00	Series D	Delhi
Zomato	Ant Financial	2018	152.17	Series H	Gurgaon
Gaana	Tencent	2018	150.81	Series C	Delhi
BigBasket	Alibaba Group	2019	150.00	Series E	Bangalore
CarDekho	Hillhouse Capital Group	2019	110.00	Series C	Jaipur
Snapdeal	Tybourne Capital Mgmt	2014	106.05	Series E	Delhi
OYO Rooms	Didi	2018	100.00	Series E	Gurgaon
Swiggy	Meituan	2018	100.00	Series F	Bangalore
Dream11	Tencent	2018	100.00	Series D	Mumbai

Source: Tracxn; Author's analysis

Annexure 3: Workshop on Awareness and capacity building on standards and certifications to boost exports

Workshop on Capacity Building of Farmers on Sanitary & Phytosanitary (SPS) and Non-tariff Barriers related to Agri-export products. (Dewas, 10-11 July 2019)

Carried out by ILRT, Bhopal and supported by RGICS.

Rationale

Rejection and/or bans have not only led to the loss of income for exporters, farmers and processors but also the loss of market to exporters from other developing countries who are able to meet the food safety and health standards of importing countries. The farmers are the primary producers in the supply chain and many of the quality issues are arising from the farm level itself. It is therefore desirable to make them aware of the negative impacts of poor agriculture management not only on trade but on the food quality safety for local consumers as well.

Objectives of the Workshop

Educate the farmers about Non-Tariff Barriers such as Technical Barriers to Tariff and Sanitary and Phytosanitary and improve quality standards under export oriented agri-horti crops to minimize the rejections and losses.

The specific objectives are:

1) To aware the primary producers about Non-Tariff Barriers, Technical barriers to tariff and Sanitary & Phytosanitary.

2) To build understanding and capacitate the primary producers about practices to ensure the quality of products as per norms of Technical barriers to tariff and Sanitary & Phytosanitary.

3) To aware the primary producers about various programs of the Government of India that support quality production of agricultural products for export.

4) Opportunities and Challenges related to Processing and Export of Soybean:

Various opportunities available for export of Soybean and the quality issues at various stages ranging from production, processing, transport, etc. Various ways where they can focus so that quality issues at the production stage can be addressed.

Annexure 4: Consultations between Govt. of Rajasthan and Chinese industry and investment promotion representatives

Date & Venue: RIICO, Jaipur, 27th August 2019

Participants:

Chinese Representatives:

Mr. Yin Weidong Shah	China Association for Small & Micro Enterprises (CASME) Investment Committee Ex-MD, HIGHLY Electrical Appliances Ltd, Ahmedabad, and founder, Founder: Gujarat Chinese Enterprise Assn. (GCEA)
Mr. Daniel Yuan	CASME Industrial Park Pvt. Ltd (India) Pvt. Ltd. ,Ahmedabad, CASME (Beijing) Investment Management Group Co. Ltd.
Ms. Yan Han	Chairperson, International Business Topline Brand Management Corporation
Mr. Tony Chen	Yingke Global, India Country Director, Gurugram

Government of Rajasthan:

Mr. Ranka (Chairman RIICO & Principal Secretary), Mr. Arvind Mayaram (Economic Advisor), Managing Director – RIICO, ACS Industries Department, Senior officers from Industries and Investment Promotion Depts.

RGICS: Ms. Mona Dikshit, ICEC Council Delhi: Mr. Mohammed Saqib.

CASME presented about their organisation, governance and operating structure. 20% investment in CASME is by Chinese Govt. and 80% is private investment. There was some discussion and clarification as to whether CASME is a Chinese Govt. or private entity. Mr. Yin informed that he is a member of the Investment Committee which is a Govt. body of CASME.

MD, RIICO made a presentation on the policies, sector potential, industrial park zones, infrastructure ecosystem and advantages for manufacturing investment.

Chinese Representatives suggested that the State should make a plan to create awareness and publicity in China for Rajasthan as a potential investment destination for Chinese investors. There is not enough awareness and information about Rajasthan as an investment destination. It was suggested that for the next “Resurgent Rajasthan” event, China could be the theme state. Mr. Saqib said AP, Telangana Gujarat have been very aggressive in marketing their State in China, as an investment destination, Rajasthan has not yet done that. The presentations can be translated to Chinese with Chinese language voice-over.

The State can organise visits for Chinese representatives to the sites allocated by the State Govt. for industry development so that investors can assess. Also to visit Japanese Industrial Zone and Mahindra Industrial Park in Rajasthan, which are good existing operating models.

Mr. Yin informed that based on agreement between Govt. of India and China, in 2014 a MoU was signed to develop two Chinese Industrial Parks (CIP) in India (in Gujarat & Maharashtra) by CASME. Again in 2016-17, FICCI organised the India-China Economic Strategy dialogue. To date in 2019, the development of the Industrial park in Gujarat has not progressed well. So the MoU is going to be revised in order to have provisions that allow its implementation to progress. The 2nd Chinese Industrial Park planned near Pune is cancelled.

Mr. Yin traced the progress and setbacks to the Chinese investment from 2014 to the present. Now Mr. Yin Shah and Mr. Daniel Yuan have been tasked with investigating the problems and possible solutions to take this forward. This is in light of the upcoming visit of the Chinese Premier in October-November 2019.

Chairman RIICO & Principal Secretary said now how to do this forward since both sides have an interest to do so. What should be the next steps? For this he said two nodal officers from each side should be deputed to work in this direction. GoR named two officers. Chairman RIICO advised that if CASME wants to show some results before their President’s visit, they will have to decide on some actions and timelines.

Economic Advisor said the development of an ecosystem for industrial development can be divided into two stages: (i) The Industrial Park development stage (ii) The stage where Industries start coming in and operate. We should look at these two stages one after another as the issues at each stage will be different.

Ms. Yan Han of Topline Consulting Group said they have a different interest as well as support from the Chinese Govt vis a vis Chinese Investment in India. They have a delegation coming to India in November 2019. Next July 2020 they are doing a ‘Festival of India’ in China. Rajasthan can be showcased in this.

Abbreviations

API	Active Pharmaceutical Ingredients
CAGR	Compounded Annual Growth Rate
CASME	China Association of Small and Medium Enterprises
CEZ/ SEZ	Coastal Economic Zones / Special Economic Zone
CCPIT	China Council for the Promotion of International Trade
CII	Confederation of Indian Industries
DIPP	Department of Industrial Promotion and Policy
DPIIT	Department for Promotion of Industry and Internal Trade
EU	European Union
FDI	Foreign direct investment
FICCI	Federation of Indian Chambers of Commerce and Industry
FISME	Federation of Indian Micro and Small & Medium Enterprises
FTA	Free Trade Agreement
FTC	Fixed Term Contract
GDP	Gross Domestic Product
GVA	Gross Value Added
GVC	Global Value Chains
ILRT	Institute for Livelihood Research and Training
MII	Make in India
MSME	Medium, Small and Micro Enterprises
OEM	Original Equipment Manufacturer
PE/VC	Private Equity / Venture Capital
PLA	People's Liberation Army
PMO	Prime Minister Office
RCEP	Regional Comprehensive Economic Partnership
RSKY	Rashtriya Shramik Kalyan Yojana
WTO	World Trade Organisation

RAJIV GANDHI
INSTITUTE FOR CONTEMPORARY STUDIES

Rajiv Gandhi Institute for Contemporary Studies

Jawahar Bhawan, Dr Rajendra Prasad Road,
New Delhi 110 001 India

T 91 11 2331 2456, 2375 5117 / 118 | E info@rgics.org W www.rgics.org