India-China Trade and Investments

Mona Dikshit, Senior Fellow, RGICS

Features of India China Trade: The total value of exports of India to China add to USD 13.33 billion while total imports come to USD 76.38 billion (2017-18), leaving a trade deficit USD 63.04 billion, which is almost 39% of India's total trade deficit of USD 162 billion[13]. The levelof India-China trade deficit accounts for around two-thirds of India's total non-oil trade deficit. In addition to this there is substantial indirect import from China via Singapore,

Malaysia, etc. The composition of India's trade with China is also of real concern as some of the key sectors of the Indian economy are critically dependent on China. In 2017-18, almost 60 percent 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, the raw material used by India's generic pharmaceutical industry. In sharp contrast, India's top exports

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were mostly intermediate products and raw materials. Last 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. 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. However, there are also good reasons to focus on the trade deficit with China as a specific policy challenge. India's new Ambassador to China in 2019 stated that “this trade deficit is not really sustainable in the long term".

“India is China's fastest growing demand base for visas,” said Mr. Tang Guocai. For the first time demand for Chinese Visa at Mumbai Consulate crossed 100,000. We want to increase to one more visa office to meet this growing demand”. There is also a demand for a direct flight from Mumbai to Guangdong and Shanghai.

Size and Nature of Chinese Investment in India: 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. Start-ups, infrastructure and electronic manufacturing especially mobile telephones, are the key areas of Chinese investment. Since 2015 around USD 7 billion in Chinese funding has poured into the Indian tech sector. From 2015 till 2017-end, the biggest sectors have been e-commerce (USD 3 billion), transportation (USD 1.7 billion), fin tech (USD 750 million) and travel (USD 450 million), according to a KPMG study. A dizzying range of acquisitions has now left Chinese companies as major shareholders of some of India's biggest tech companies and many such investors see India as the next big frontier. 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. As of last year, of the 100 most popular Android apps used in India, 44 were Chinese, including five in the top ten said one recent report, describing it as “a Chinese takeover of the Indian app ecosystem”.

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).

Issues of establishing business and investing in India: Although tech-savvy industries seem to be prospering, their ability to create jobs and generate exports is actually dwarfed by the low-end industries like apparel, stationery and household items. Channeling Chinese investments into priority sectors, such as infrastructure, or into sectors where substantial job creation can occur still remains a challenge for the Indian government. People in China have limited access to the information about the Indian economy and business environment. This has restricted the relatively mid-scale businesses from China to invest in India.

India's trade and investment strategy with China has primarily had two areas of focus – opening up China's market, particularly for IT and pharma and bringing in Chinese investments in green field infrastructure projects in India and to manufacture in India. A lot of energy has been – and is being – expended in both areas. Both have largely failed to bear fruit for various reasons, one of which is neither suits the objectives nor interests of China. Consider IT and pharma. What China is seeking here is to develop and acquire the capacities on its own in both areas, including through acquisitions – hence, for example, Fosun's USD 2 billion acquisition of Indian company Gland pharma. Or, for instance, if we consider the fact that the only Indian IT company to be successful in China is NIIT, which isn't selling Indian IT services or products, but training tens of thousands of young Chinese in IT skills ever year, so they can bolster Chinese IT companies rather than rely on Indian ones.

The commerce department has recently prepared a strategy paper[14], aimed at reducing India's trade deficit with China. It proposes a 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 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. Sectoral policy documents give a vision, but there is no detail or framework on steps and measures for implementation. Even with our own investments, Indians find it difficult to manufacture in India, leave alone the Chinese.

When an idea is generated by an Indian entrepreneur, for example a factory for a semiconductor chip, he/she faces massive bureaucratic hurdles while applying for approvals, apart from land acquisition issues. Hence by the time the factory is ready to start manufacturing, the idea/product by itself would have become outdated. In China many businesses are using new concepts such as office space sharing or renting a factory space. This enables quicker and hassle free platforms for the product to be manufactured. Once the product's sales are saturated, the manufacturer moves on to working on the next idea while perhaps vacating that space.

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

Trust, Security, Regulation and Visa issues: Issues for India include the infusion of capital, which has allowed hundreds of Indian tech start-ups to scale up, thanks to their financing. So it should certainly be welcomed, in some sectors. 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 and ensure transparent regulation? Regulation – and deciding what sectors are sensitive – isn't easy in an industry that's changing rapidly. India happens to be a market with among the poorest regulations and protections when it comes to data security.

Just two of China's three big BAT (Baidu, Alibaba and Tencent) tech firms – Alibaba and Tencent – have invested close to USD 3 billion in various Indian start-ups. In 2015, Alibaba pumped in close to USD 700 million in Paytm's parent company, giving it a 40% stake. If we consider banks to be strategically sensitive assets, is it only a matter of time before online wallets that are increasingly offering all of the services that banks do, fall in a similar category? If so, are we okay with Alibaba, a Chinese company with close ties to the state, essentially being the biggest shareholder in India's biggest online wallet Paytm. The Government of India is wary of the China deep state and possible PLA connection of its enterprises. India does not open Chinese investment in certain sectors and categories e.g. for switchback equipment. Chinese companies/ investors in India are looked at with suspicion. Indian IT sector companies were hesitating to host a Chinese delegation from Shenzen 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.

Issues for China include 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 recent Doklam standoff) and even India and Pakistan, affects and discourages investment in India. There is a basic safety-net missing for investment from China. Most people in China know very little India and there is a lot of negative reportage and news about India, and that is something that needs to be worked upon.

The most prominent issue for China is the Indian government's visa policies vis-a-vis the Chinese fluctuate from time to time and there are many restrictions. Chinese 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. This has made the process a little simpler. Most of the time, the Indian embassy and consulates provide the business visa to the Chinese for 60 days only, after which the visa holder has to go back to China to renew the visa. Chinese investors who have to set up factories here, start construction on fixed assets or undertake other bona fide long term business activities need more time to stay in India, so that they can get the required work done. It is very difficult and takes a long time for Chinese to get employment visa in India. 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 by India.

Potential and strategy for attracting Chinese Investment: Investment in India should be seen as part of a global strategy for Chinese companies. The China India Institute, a Washington DC based leading research consultancy, has researched and analyzed the growing corporate linkages between India and China[15], and how winning in each other's markets is also making them stronger and whetting their appetite for further global expansion. 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. 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.

The ongoing trade war between the US and China will help India tap export opportunities in both the countries in areas such as garments, agriculture, automobile and machinery, according to trade experts[16]. Says FIEO Director,"All investments in China with prime focus on the US market may seek relocation and India would definitely be the option. There is a need to move aggressively to woo such investors before they are allured by others".

Aligning Industry and Labour Interests for profitability and sustainability is important. The Confederation of Indian Industry (CII) views that for investments to be successful in India, there should be proper cooperation between the Government, Industries and the labor representatives. CII also opines that the labor policies in the country are not very fair. This was especially with respect to the electronics industry. Business models have changed with models like “uberization”. Under Indian Labour Laws some rules like Factory Act and others are very old so some are not even pertinent or implementable. These should be examined and revised.

The process of seeking and facilitating Investments needs to be worked through. The Government needs to bring consistency in its announcements for inviting investors and ground reality of policy, implementation and treatment of foreign investment and investors. The Indian delegations that go to other countries for seeking investment have to be well prepared with prior groundwork and offering by the State. Sending big delegations of

15 Anil K. Gupta, Girija Pande, and Haiyan Wang, (2014) “The Silk Route Re-Discovered How Indian and Chinese Companies are becoming Globally Stronger by Winning in Each Other's Markets” http://www.chinaindiainstitute.com

16 https://www.business-standard.com/article/pti-stories/india-to-benefit-from-us-china-trade-war-experts

Ministers, bureaucrats etc. to China and making PPTs with broad announcement of the potential in the State, is of no use. For example, the Govt. of Telangana followed a successful approach by first sending a small (2-3 person) preparatory visit followed by a larger detailed business delegation that was properly focused.

In China every Industry has an Industry Association. It is important for State Govt. to have policy and investment consultations with them. The Indian embassy in the visiting country helps organize the visits and meetings. Rather than going only through the embassy, engaging simultaneously and directly with the local clusters is needed for follow up work.

Leveraging Indian market to demand more job-creating investments and better trade deals is necessary. 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 and expanding market and economic growth. No other nation in the world offers this kind of large and growing market.

India is an important market for Chinese internet investors/entrepreneurs; some 50 of them reportedly set up shop in the country last year. While it is important to attract investors, it's also important to set clear requirements based on our interests[17]. The Indian ban on Bytedance's short video app TikTok has been lifted, although given the serious issues that remain with the content on TikTok, the company has to pull up its socks. Such instances are actually a really good opportunity to demand greater investments and job creation in India by Chinese giants.

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.

Reducing Trade Deficit through Export Promotion to China: In the IT, Pharmaceuticals, Processed foods sectors, India should use the strength of its service and software industry strength to get a bigger market footprint in China. India should also negotiate with China for increase of exports to China in pharma sector, where the Chinese market is good and Indian Industry is well developed. China uses non-trade barriers on Indian exports to China, the Indian Government needs to sort this out with Chinese Government. Unlike most Western countries, it is remarkable India doesn't have an equipped chamber of commerce in Beijing to help navigate the complex legal and regulatory requirements of the China market. The Confederation of Indian Industry (CII) has had a representative office in Shanghai that has admirably championed Indian firms, but with very modest resources.

According to Retd. Ambassador Bambawale[18], trade imbalance cannot be only by enhancing Indian primary exports. He suggests the following sectors:

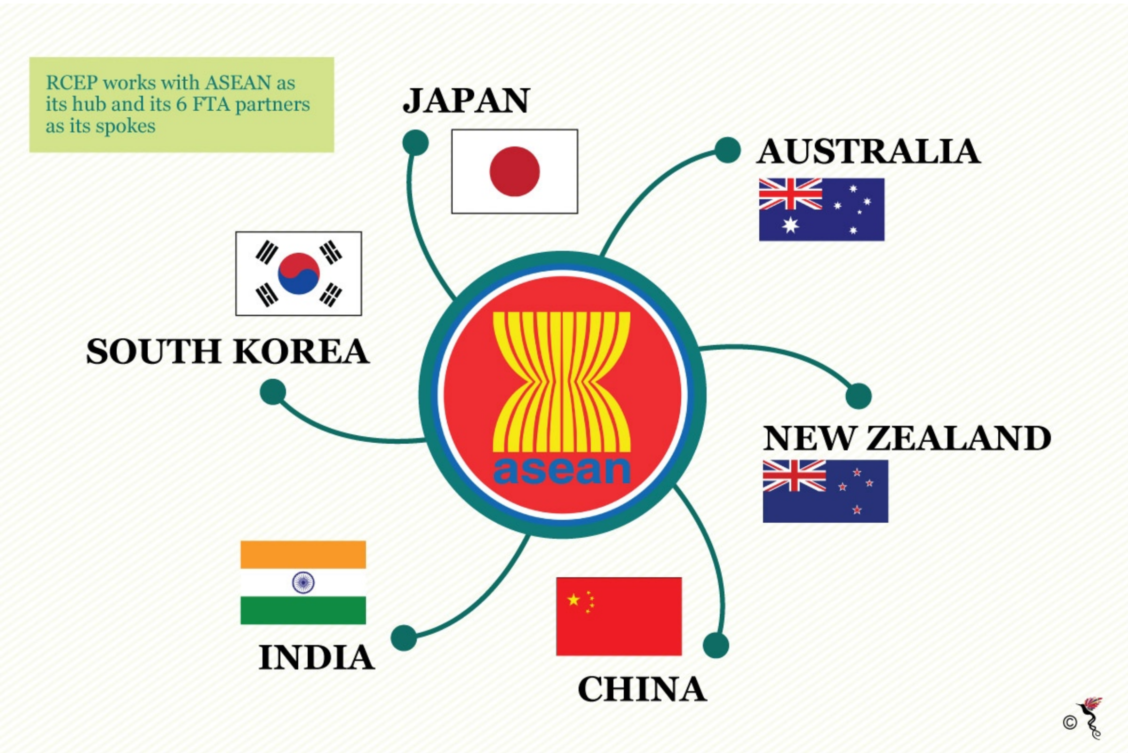
- Attract Chinese tourists in large numbers,
- Attract students for undergraduate study so they can learn good English and go for higher studies to the US, etc.
- Export Indian films, Yoga and other products/services of our creative and cultural industries

17 https://www.thequint.com/voices/opinion/opinion-china-india-economic-partnership-indian-startup-ecosystem
18 Gautam_Bambawale, a former Indian Ambassador to Bhutan, Pakistan and China.

China is a large supplier of the world's outbound tourists. India is practically a virgin market for Chinese tourists. India is geographically close to China and a relatively an inexpensive destination. China is now interested in everything Bollywood — from partnership and distribution rights to Indian directors and writers. 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.

Handicraft exports are likely to more than double from Rs. 3 bn. (~USD 45 mn) in FY15 to Rs. 6 bn. (~ USD 90 mn) this year (FY16-17)[19]. "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. Although Indian handicrafts are slowly gaining popularity in China but the potential that exists is still largely unexplored. Besides the well-known markets like Beijing and Shanghai, there are many emerging markets, which are still unexplored[20].

Bambawale[21] recommends that India should also proactively engage and work with China in the Cooperation on International Solar Alliance, Shanghai Cooperation Organisation, trans-border rivers and railway station technology. The RCEP is the only mega regional trade agreement in Asia-Pacific of which both India and China are members which seeks to create the world's largest free-trade agreement under the Regional Comprehensive Economic Partnership (RCEP). Greater cooperation and collaboration between the two countries in creating green economies will also go a long way in lowering carbon emissions globally. This common vision towards clean energy will ensure increased trade opportunities between India and China.

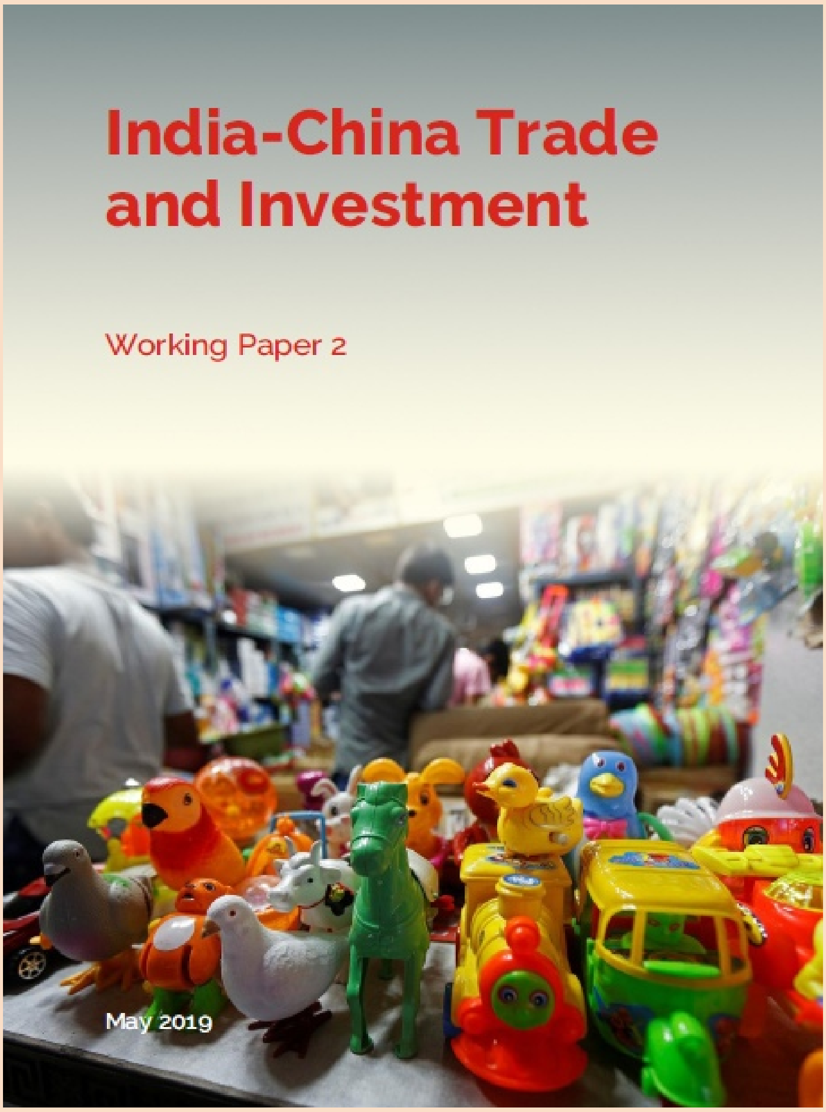


19 //economictimes.indiatimes.com/articleshow/57525885.cms (2017)

20 http://www.icec-council.org/promoting-indian-handicrafts-in-china-icec-participates-in-international-expo

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

Engagement needs to be channelised through lower levels of government and society. 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. As Mr. Tang Guocai, Chinese Consulate in Mumbai said: “for sustainable relations, there is a need to develop business relations as well as cultural relations.”



A working paper on India-China Trade and Investment is available on our website: http://www.rgics.org/working-papers/