CoverStory

Fueling the manufacturing engine

CHINA'S PROPOSALS FOR INDUSTRIAL DEVELOPMENT IN INDIA WILL GIVE A HUGE BOOST TO ECONOMIC GROWTH

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in New Delhi
For China Daily Asia Weekly

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After almost a decade living in China, German Heiko Bugs, a partner at market growth and strategy consulting firm Solidance, had witnessed the country's rapid growth as an economic powerhouse.

"During my stay in China I had never seen a single day of power failure," Bugs recalls.

This not only highlights the efficient power sector on which the country has propelled its manufacturing growth, but also reflects China's strong infrastructure.

Upon moving to India, it became clear just how far advanced China was in comparison. "If India wants to improve manufacturing share in GDP it needs to replicate China," says Bugs.

"There is a huge business opportunity where India can collaborate with China to improve the infrastructure and subsequently expand manufacturing growth."

As a global manufacturing destination, China is in a different league to its neighbor. With the Chinese economy experiencing rapid growth in manufacturing over the last three decades, India has lagged behind, with poor infrastructure regarded as a major constraint for growth.

In 2010, China overtook Japan as the second largest economy in the world and subsequently became the largest manufacturing country, overtaking the United States. The country's huge manufacturing engine boosted living standards by doubling the country's GDP per capita over the last decade.

The gallop doesn't end there.

According to the *2013 Global Manufacturing Competitiveness* Index report by Deloitte, China remains in first place for manufacturing competitiveness, both today and five years from now.

But India dropped two places in this year's report, falling from second to fourth place. Inadequate infrastructure was recognized in India's 11th Five-Year Plan (2007-2012) as a major constraint for rapid growth.

And while India desperately needs infrastructure improvement before its manufacturing sector can grow, China already has strong infrastructure experience, and money to invest in overseas projects.

China cites a number of key strengths: Labor and material cost advantage, strong government investment in manufacturing and an established supply network.

"Favorable policy actions under the country's 12th Five-Year Plan (2011-2015) likely helped maintain China's top ranking for future competitiveness," the Deloitte report said.

According to the Planning Commission of India, investments in infrastructure between 2002 and 2007 had been just over 5 percent of GDP of which private investment accounted for about 1.2 percent.

In China's 11th plan, the total investment for infrastructure development was pegged at 7.2 percent of GDP.

However, China invested between 9 and 11 percent of GDP in infrastructure development in recent years. According to a Deloitte survey, the physical infrastructure in China is more competitive than other Asian countries such as India and Vietnam.

During India's 12th Five-Year Plan (2012-2017) the country expects investments in infrastructure projects to be worth about $1 trillion. The total investment as a percentage of GDP is also expected to be in the range of 7 to 9 percent.

Besides, the Indian government has enacted a national manufacturing policy (NMP), through which the country hopes to boost the share of manufacturing from 16 percent of GDP to 25 percent by 2022.

The NMP has proposed the creation of massive national investment and manufacturing zones which are being conceived as giant industrial greenfield townships to promote world-class manufacturing activities.

The policy also seeks to make rules and regulations more flexible by reducing the compliance burden on manufacturing units. A proposed single-window clearance mechanism — which allows international entities to submit all required documents at a single location — will provide relief to foreign investors and ensure faster clearances.

In this context, Anand Sharma, India's minister for commerce, industry and textiles, recently invited Chinese companies to invest in the new manufacturing zones.

"We have invited China to participate and support in the establishment of one or more of the national investment and manufacturing zones that we have decided to establish under the national manufacturing policy," Sharma said in a statement.

Jeff Xu, a partner specializing in tax at Deloitte in Shanghai, says both countries have benefited from partnership over the years. "The new policies and warmth on both sides has opened doors for investment and increased opportunities on both sides."

"However, China has already invested in many infrastructure projects in India, but it is less when compared to Chinese investments in other countries across the globe."

The Ministry of Commerce reveals that China's outbound investment covers 70 percent of regions around the world.

In 2012, investment from the Chinese mainland to seven major economies — Hong Kong, the Association of Southeast Asian Nations, the European Union, Australia, the US, Russia and Japan — stood at $59.9 billion, accounting for 77.6 percent of China's total foreign direct investment (FDI) outflow that year.

However, according to the official Indian data, the cumulative FDI equity inflows received by India from China from 2011 to 2012 was only $72.6 million. India ranked 30th on the list of recipients of FDI from China.

And between April 2000 and April 2013, the FDI from China to India was a meager $244.76 million, which represents only 0.13 percent of the total cumulative inflows received by India ($191.76 billion).

The prominent Indian sectors that have attracted FDI from China are: automobile (40 percent); metallurgical (17 percent); power (7 percent); construction and infrastructure (5 percent); and services (4 percent).

"India is keen on having more investments from China in the manufacturing sector," says Vikram Kirloskar, vice-chairman of Toyota Kirloskar Motor and chairman of the Innovation Council at the Confederation of Indian Industry. "At present, our bilateral relation is largely dominated by trade."

Mutually beneficial results and common development with recipient countries through outbound investment is a major factor for China, maintains the Ministry Of Commerce.

"China's FDI outflow has not only upgraded practical cooperation between China and the recipient countries but also boosted bilateral relations," the Ministry said in a statement.

The statement also said that through cooperation, Chinese firms have helped recipient countries increase the value of their resources and drive their economic growth.

Ajit Ranade, chief economist with the Aditya Birla Group, wrote: "China's three-decade-old export-led growth model has resulted in huge foreign exchange (forex) reserves. So this is the historic opportunity: Invite a tiny portion of China's forex stock into India's infrastructure. China has the finance, India has the hunger for long-term funds."

During his visit to India in May, Chinese Premier Li Keqiang announced Beijing's intent to develop further ties by setting up industrial parks and special economic zones in India.

China has since proposed the development of an industrial park in the northern province of Uttar Pradesh, which will have a focus on electronics manufacturing. An investment of around $160 billion in the eastern province of Andhra Pradesh has also been suggested, focusing on various sectors such as food processing, small-scale industries, infrastructure and education

At the second India-China Strategic Economic Dialogue in New Delhi in August, both countries decided to cooperate on high-speed rail, transportation of freight, and passenger train station development, as well as developing common standards for digital television and mobile communication.

If the plans materialize, it will give a tremendous boost to industrial development and economic growth.

For example, the Shanghai Urban Construction Group Corporation has already won a contract to build part of the tunnel for a new 9.37-km subway of Delhi Metro Rail Corporation.

Chris Devonshire-Ellis, a managing partner at consultancy firm Dezan Shira & Associates, says China has a proven track record of exporting its build-operate-transfer facilities around the world.

"The opportunities to invest in infrastructure projects in India are actually far more attractive to foreign investors, so there are great opportunities for Chinese MNCs (multinational corporations) to take advantage of India's need for rebuilding and get into this market," he suggests.