On Investment for India by Chinese Companies

The Kokushikan University School of Asia 21

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本稿は，さる 2006 年 3 月 7 日～ 9 日にかけてインドの首都ニューデリーで Jamia Millia Islamia の第三世界研究アカデミー及びデリー大学東アジア研究学部の共催により開かれた国際シンポジウム（“India and East Asia : Paradigms for New Global Cooperation”）での報告ペーパーに一部加筆修正を加えたものである。

INTRODUCTION

It has come to a general knowledge that so-called new economy countries, such as Brazil, Russia, India, and China, particularly the said four nations are referred to as “BRICs.” The acronym stands for the initials of the four nations. Now from fully counting upon potentials of high economic growth, each is going to attract global attention mostly as a promising investment market.

China and India are traditionally compared to a “dragon” and a “huge elephant”. Although both of them are gaining significant presence, the serious obstacle of the eternal border problem in addition to the Tibet problem has stayed for longtime unsolved long after the border dispute broke out which developed even into the armed clash in 1962 alike a thick wall defining improved relations.

But, mutual interests in various fields including exchanges of defense sector are being actively seen in recent years reflecting on a strong intention of the both countries in the entry into the 21st century, and efforts are there to build new cooperative relation centering on economic fields, such as IT (information technology) industry and resource reservation. Holding of a series of security talks by government-authorities including strategic peace negotiation have started, and long waited mutual personnel exchange by government heads has also realized.

Reflecting political improvement, combined value of external trade has favorably continued to rise till 2004, attaining 13.6 billion dollars far beyond the 10 billion-dollar mark. The value has grown as much as thirteen times as great as the value of 1994 when the trading remained just one billion dollars. When you see China as a trade partner of India, the trade value to India has finally outgrown that with Japan. The trade volume alone speaks volume of the improved relationship between the two nations.

In this paper, I have taken up issues focusing on external investment considered to be one of the crucial factors which promotes expansion of mutual trade, and a focus is mainly on how Chinese companies will invest in India as follows: The first chapter takes up the so-called "going abroad" (走出去：zouchuqu in Chinese) strategy by Chinese companies, the policy which the Chinese government is promoting powerfully since the end of the 1990s. It especially surveys on the plan and aim of the investment for India, and I want to aim at clarifying on the advance process and actual ways of investment deployment, attributes uniquely seen, etc. in Chapter 2, with the investment case for India vs. China by industrial analysis.

Chapter 1 Chinese Overseas Investment Strategy

(1) The overseas expansion policy of China companies

In the quarter century since the commencement of China's policy of reform and opening, domestic corporations have sought new opportunities for development all around the world; this movement towards overseas expansion is now accelerating. Unlike previously, this is not only characterized by the encouragement of inbound investment by foreign capital into China but emphasizes foreign direct investment (FDI) by Chinese corporations focused on resources found in other countries. Put another way, this overseas expansion plan may be understood as the extensive development of a Chinese foreign funding activation policy.

It came out in the 3 rd plenary session of 9th National People's Congress in March, 2000 where the mentioned "going abroad" (走出去) strategy was officially taken out which put emphasis on overseas investment, when China would strengthen the global competitiveness of the company. The contents made out public there came into the four main categories that the policy sought out. Namely, (1) resources development oriented foreign investment, (2) market cultivation oriented overseas investment, (3) export based foreign investment, (4) high technology and R&D oriented investment.

In addition, in the present Tenth Five Year Plan (2001—2005) these foreign investments are positioned in the three major programs responsible for the open economic development of same tenor along with foreign trade and the introduction of foreign capital, thus playing an important role in respect of foreign economic policy as part of the long-term development strategy of the Chinese economy that the country seeks (Notes 1).

Also "the proposal of the 11th national economy and social development Five-Year Plan" adopted in the 5th plenum of 16th Central Committee of the Party Congress in October 2005, declared that" companies with qualifications are encouraged for expansion under internationally accepted rules".

Thus, change of the situation which spurs internationalization of the China economy called "progress of the globalization" in the world economy and the Chinese affiliation (December, 2001) to WTO serves as a backdrop. They jointly encouraged the overseas expansion by Chinese companies. With the requirements of the age plus the world getting smaller, Chinese leading company started presenting themselves overseas one after another, thus marking fledging FDI by Chinese industries. According to the national external economy collaboration maneuvers meeting which the China trade activities division summoned at the end of October, 2005 reported that the foreign-direct-investment amount of China companies amounts to 44,800 million dollars (the percentage in the total foreign-direct-investment amount of the entire world is 0.9%) in the total, and that the investment has reached 149 nations and the area in the world now [end of 2004].

The amount of overseas investment in 2004 is 5,500 million dollars, the increase of 93% over that of the previous year, and the value attained from January through September, 2005 grew 138 per cent more than that of the corresponding periods of the previous year (Notes 2). The statistics explain that the overseas investment by Chinese companies expands rapidly in recent years, and the recognition "that the country has entered into the high growth age" is widely conceived.

(2) The investment plan for India of the Chinese government

Then, while the overseas expansion by Chinese companies activates, how China looks at India as an investing partner and how the country positions it among South Asian countries for potential investment opportunities? "The industrial guidance list classified by overseas investment country" released in July, 2004 is a guide which may answer to this question. This list is jointly signed by Ministry of Trade Commerce and Ministry of Foreign Affairs is the first publication ever made public in China on overseas investment. The publication is presumed to have made public the official guide line for foreign direct investment by the government for overseas investment support for Chinese companies, and partly for watching over the arbitrary investment or unwanted completion by some Chinese companies.

The list points out the overseas investment in such a way as to what kind of industry (it classifies into five, agriculture-and-forestry fisheries, mining business, the manufacturing industry, a service industry, and others) is recommended to invest, from the Chinese point of view, while discussing the advantages of FDI and the feature of a market in a candidate countries of 67 nations, respectively. Although so far the area encouraged as an investment target about a fiber and household appliance industry was specified, there has been no indication for other fields of business until now.

Furthermore, what is good about the list is that it recommends the Asian areas for future investment (23 nations equivalent to 1/3 or more [of the whole] being enumerated) as a unique feature, and such nations, as India, Pakistan, and Bangladesh, are specially mentioned. As to the India, except the agriculture more specifically, the list mentions the coal and iron ore for mining, refrigerators, air conditioners, TVs, plastic related products, and pharmaceuticals for manufacturing, software development, transportation, infrastructure construction for services (refer to Table 1).

According to approval statistics of Ministry of Trade & Commerce in China, the direct-investment (except for the finance business) track record for India of China companies has been published since 1993.

The accumulated amount of investment to India form China has been fifteen cases and the value reaches 20,630,000 dollars (2004 are two cases and 2,200,000 dollars) on the contract basis in the total focusing on machine production, such as a household appliance, the IT industry, and fiber relations now [as of 2003, or ten years later since the start of the statistics].

On the other hand, the statistics made available on India side says that in an approval basis, the number of cases is a total of 36 cases, and the total value of the direct investment from China is 7,433 million rupees (about 226 million dollars) as of 2003 (Table 2). The share according to country is 0.3%. As long as discrepancy clearly exists in both statistics, and it judges from this, it turns out that the value of the investment seen in Indian record by Chinese companies is much larger than that of the formal statistics of the Chinese government.

Following the visit to China by Indian Prime Minister Vajpayee then realized in June, 2003, the successive deregulation measures spurred by the foreign investment have been taken by the India government for the further improvement of the relations of both countries (for example, approval of the majority equity investment in the field of electric communication or a bank — admission and foreign funding — removal of the ban of the construction and real estate development depended independently etc. —). It is hoped that the trend helps improvement in the degree of comprehension to the India market by Chinese companies, and the investment for India of China companies is beginning to gains progress after a long interval.

Also in order for this investment to accomplish development in steady way from now on, it is recommended that some form of mutual investment protection treaty be signed, the lack of which has been a detriment for both countries. The joint statement issued when Chinese Prime Minister Wen Jiabao paid a formal visit to India in April, 2005, might be a step toward future conclusion of "investment promotion / protection agreement" as the statement symbolized

Table 1 Main encouragement type of industry in Chinese overseas investment (by country, in part extract)

An area and a country	Agricultual, forestry and fishery industry	Mining industry	Manufacturing industry	Service industry	others
South Asia -India	Agricultural-products cultivation	Coal, iron ore	Various measuring instruments and the equipment for office work. Electric power machinery, such as switch equipment, a dynamo, etc. of height pressure. Electric machines, such as refrigeration facilities and an air-conditioner. Electronic equipment of television etc. Plastic article. Medical supplies.	Trade. Software development. Construction. Traffic transportation. Sightseeing. Infrastructure section.	Production and supply of electric power
-Pakistan	Fishery capture	Coal, copper ore	Electric machines, such as refrigeration facilities and an air-conditioner. Traffic transportation equipment and said division articles, such as a car and a two-wheeled vehicle. Medical supplies. Agricultural machine. Electronic equipment and communication equipment. A fiber and an apparel, shoes and a hat.	Retail. Construction.	Production and supply of electric power
-Bangladesh	Agricultural-products cultivation	Coal, a natural gas	A fiber and an apparel, shoes and a hat. An electric machine and equipment. Agricultural machine. Traffic transportation equipment and said division articles, such as a two-wheeled vehicle and a bicycle.		
North Asia -Japan			An electric machine and equipment. Printing machine. Measuring instruments and the machine for office work.	Trade, retail. Research and development. Software development. Traffic transportation.	
-South Korea			Traffic transportation equipment of a car etc. 化工 materials. Communication equipment, a computer, and other electronic equipment.	Trade, retail. Research and development, construction. Traffic transportation.	
Emerging market country (BRICs) -Russia	Forestry exploitation. Fruit and vegetable cultivation	Oil and a natural gas. Mineral product resources, such as a coal mine, iron ore, copper ore, bauxite ore, nickel ore, a lead, zinc ore.	An electric machine and equipment, such as printing. Electronic equipment and communication equipment, such as computer television. Log processing and furniture. A fiber and an apparel. Paper manufacture and a paper product. Tobacco products. Metal goods. Plastic article. Traffic transportation equipment of a vessel etc.	Trade, retail. Communications service. Eating and drinking, construction. Sightseeing, education. Medical treatment, finance. Computer service.	
-Brazil	Forestry exploitation	Oil. Iron ore, bauxite ore, copper ore.	An electric machine and equipment, such as a refrigerator and an air-conditioner. Electronic equipment of television laser disc (LD) player radio etc. Metal goods. Plastic article.	Trade, retail. Traffic transportation. Construction.	Production and supply of electric power

Note : India is also counted by the member of BRICs along with China.
Source : "The industrial guidance list classified by overseas investment country" July 8, 2004

Table 2 FDI inflow by country in India (Approval basis)—five nations of higher ranks and China
Number of cases: A
Amount of money: B

(Unit: Cases, 1 million rupees, %)

	1991		1992		1993		1994		1995		1996		1997		1998	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
U.S.	53	1,859	155	12,315	151	34,619	179	34,881	261	70,544	283	100,559	315	135,698	243	35,620
Mauritius	0	0	0	0	8	1,242	8	5,347	64	18,085	94	23,340	131	104,279	94	31,659
Britain	38	321	74	1,177	80	6,227	97	12,992	105	17,259	131	15,246	141	44,907	98	32,008
Japan	15	527	43	6,102	26	2,574	45	4,009	40	15,143	76	14,882	83	19,064	67	12,828
South Korea	5	62	28	394	21	293	25	1,069	38	3,142	46	32,209	49	19,560	23	3,684
China	1	8	0	0	8	617	5	273	4	5,811	3	140	1	4	1	68
U.S. dollar conversion (1 million dollars)		(0.3)		(0)		(20)		(9)		(179)		(4)		(0.1)		(2)
Sum total (in addition to this, it contains)	289	5,341	692	38,875	785	88,593	1,062	141,872	1,355	320,717	1,559	361,468	1,665	548,913	1,191	308,135
U.S. dollar conversion (1 million dollars)		(218)		(1,497)		(2,898)		(4,522)		(9,890)		(10,182)		(14,772)		(7,468)

	1999		2000		2001		2002		2003		Total (1991 to 2003)		
	A	B	A	B	A	B	A	B	A	B	A	B	Percentage
U.S.	358	35,752	419	41,950	589	49,215	542	20,511	457	7,624	4,005	581,145	20.0
Mauritius	144	38,030	199	72,340	239	28,925	219	18,466	116	13,659	1,316	355,373	12.2
Britain	144	29,630	125	4,112	162	49,942	163	18,044	140	5,002	1,498	236,867	8.1
Japan	91	15,947	65	8,275	70	7,353	89	7,408	63	3,430	773	117,543	4.0
South Korea	43	36,489	22	411	21	668	27	290	26	615	374	98,885	3.4
China	6	211	0	0	1	0	1	0.1	5	303	36	7,433	0.3
U.S. dollar conversion (1 million dollars)		(5)		(0)		(0)		(0)		(7)		(226.4)	
Sum total (in addition to this, it contains)	1,726	283,665	1,726	370,394	1,982	268,747	1,966	111,398	1,553	60,422	17,551	2,908,542	100.0
U.S. dollar conversion (1 million dollars)		(6,588)		(8,242)		(5,695)		(2,292)		(1,297)		(75,561)	

Notes 1) From August, 1991 when the statistical official announcement was started as for the total to December, 2003.
2) U.S. dollar conversion uses each annual average exchange rate of an opposite dollar.

Source : Ministry of Commerce & Industry "SIA News Letter" mutual interests and efforts shown by the both countries.

In addition of the pact at sight, the situation of direct investment by India toward China, as of 2003, there have been 101 cases and the value in terms of contract reached 234,650,000 dollars, and the vale of investment in terms of execution reached 79,130,000 dollars by the total now. The value in terms of case in 2004 was 37 cases, 62,900,000 dollars, and 19,480,000 dollars, respectively. Since the India has not made public overseas investment statistics, this number is based on the direct-investment acceptance track record by India toward China estimated by the Chinese side. It is worth special mention that 70-percent of (the approval number of cases and amount-of-money executed) has been in fact from the year 2001. In terms of category, pharmaceuticals, IT related products, fire-resistant materials, packages are representative items, while recently interest in car-related items are on the rise.

The cross-border investment between China and India are not so much in the value, but there has been movement to set up mutual funds for investment.

When Chairman Victor Chu of Hong Kong based First Eastern Investment Group visited New Delhi in India, he established "India and China fund" in February, 2005, and expressed that he would actively support mutual investment. The fund for both China and India would start at initial value of 200 million dollars, and called for Japan later on for help (Notes 3). How will the fund turn out is of great interest.

Chapter 2 Investment Example for India of China Companies

In this chapter I would like to discuss investment by Chinese side toward India case by case for their characteristics.

(1) Steel and iron ore

The governmentally run Chinese Metallurgical Export-and-Import Company made a large-scale investment (about 55 million dollars) in the State of Orissa of eastern India where iron ore is produced in large quantities, and built the joint factory in 1995. As for the way the project runs, China obtain the final product (bar steel) wherein the Indian side offered raw material, or the iron while Chinese side offer equipment and technology. This project has been the largest done by the two countries. The fact remains, however, that there have been no projects as substantial as this since then.

The State of Orissa facing the Bay of Bengal is known for having deposits of iron ore estimated for four billion tons, roughly 30 per cent of the total iron reserves that India has. Thereby, a number of projects are coming up for new plants to avail of locally accessible natural resources. (For example, South Korean POSCO also marches out) The location enjoy

Table 3　Chinese iron ore import trade classified by country—three nations of higher ranks

(Unit: 10,000t, 1 million dollars, %)

	1999			2000		2001		2002		2003		
	Quantity	Amount of money	%	Quantity	Amount of money	Quantity	Amount of money	Quantity	Amount of money	Quantity	Amount of money	%
Import total	5,527	1,379	100.0	6,997	1,858	9,231	2,503	11,150	2,769	14,813	4,857	100.0
Australia	2,434	589	42.7	3,275	816	3,796	943	4,279	995	5,813	1,630	33.6
Brazil	1,152	310	22.5	1,482	438	2,453	745	2,977	802	3,840	1,348	27.8
India	889	222	16.1	1,100	297	1,698	459	2,253	557	3,228	1,218	25.1

Source : “China Trade Year book”

concentration of productive capacity for about 45 million tons per year which hit to the about 70 percent (the crude steel production of India in 2004 is 32 million tons, and China is 272 million tons) concentrates. Specifically, the memo of iron mill construction is told that 25 companies, such as the Tata Steel in India, Star light iron manufacture, and Gindull steel and power, are under signature and negotiation of 15 more companies with this state government (Notes 4).

India is trying hard to obtain indispensable resources for growth of the country at the time when there is a sharp imbalance of supply and demand of vitally needed materials.

In such a situation, the resource acquisition competition with China is getting all the more conspicuous, to name a few, the oil and gas field development in Russia, Kazakhstan, or the Middle East and the Africa area. Increased completion is there among China, Australia and Brazil in search for such natural resources.

On the other hand, India has been exporting iron ores to China since 1996, and the value has been on constant rise in recent years. If the year 2003 is taken as an example, as shown in Table 3, the value from India, being 32,280,000t (share 21.8%) , accounting for about 1/4 in the total volume of 148,130,000t China import, as compared to 58,130,000t (said — 33.6%) from Australia, which is ranked No.1 exporter, and 38,400,000t (said — 27.8%) from Brazil, the 2nd place. The value from India still remains small, its growth rate far exceeds the said top rankers.

In fact, as of writing this China is a major importer from India in iron ores, superseding Japan. The iron ores from India to China creates a problem as well in quality management. For example, iron ores of 1,360,000t out of total 2,660,000t unloaded in the Jiangsu Nantong port in the first half of 2004 proved to be reject able, which represents as much as about eighty percent of the total shipment, due to mostly such causes as unacceptable amount of moisture contents, extremely low contents of iron, or inferior inspection on shippers’ side (Notes 5).

It stands to reason, therefore, China will try to present itself on captive import, that is to say develop the iron mines on their own and purchase the ores as much as mined locally, rather than simply keep importing them as they currently do. There was a precedent in Iran way back in the mid of 1970s. The project envisioned production of 7,500,000 tons worth of iron ores, but it didn't work out because of combined reasons including difficulty for payment (Notes 6).

(2) Electronics (home appliances)

Coupled by over supply and resultant pressure to lower the retail prices, the electronics appliances manufactures are trying to present themselves in foreign markets in search for profits. The Chinese government designates their presence in 10th Five-Year Plan covering 2001 through 2005 as top priority project for the industry. They set out the value producible in foreign markets at five hundred million dollars to be achieved in the final year, 2005.

〈KONKA group〉

China has been setting their eyes on India, the country of a big population and good potentials to grow for long time. In fact they entered the country since 1990s. The pioneer was the KONKA Group, the Guangdong based major TV producer. The company had acquired a license for overseas investment as early as in December, 1998, for 10 million dollars, and the following 1999 saw the entry by the Wittis group of Hong Kong, India's Hotline Groups and the KONKA. The JV was named KONKA Electronics, India Ltd. (KEIL).

According to the plan enacted when the KONKA group entered the India market, the following three points were considered very important.

① The production base of the company is built in the northern part as well as in the central part of India, and performs the production and the assembly of consumer electronics for color TVs, washing machines, telephones, etc.

② Set up the Technical Development Center in India. The center is tied up with Development Center through internet to the head office in Shenzhen and the Silicon Valley, for technology exchange and assistance.

③ Finally form a "KONKA electronic town" through the institution of the contract-manufacturing factory in India, a production base, Technical Development Center, and others etc.

In addition, it gained the major brand eventually in the consumer electronic (consumer electronics) market, with initial strategy to let their brands recognized in India for eventual successful acquisition of the market share (Notes 7).

Above KEIL imported color TV parts under the semi knockdown (SKD) system, and was assembling them to finished goods at the factory of the partner of India at the outset. Moreover, the company started marketing 14-inch type color TVs by taking a budget-prices strategy. Furthermore, the report has it that besides the export to each country in South Asia besides the home sales in the India market was also on their schedule, being ready to produce 200,000 color TVs in 1999.

The joint venture project they planned did not work out and eventually disappeared after a series of difference of opinions had come out between the two companies. It never means, however that the KONKA group did not produce any results in India for three yeas and six months, they actually let their brand recognized to some degree in the local market before they completely withdraw from it. The decision on withdrawal from the Indian market was approved officially on their board meeting director meeting held December, 2002.

As for their failure, the manager in charge commented in hindsight on the two factors, that 1) the tariff rate or import duties on Indian side for the industrial goods and parts was very high, in fact the arte stayed one time as high as 50% and that, 2) the managerial conditions on the local Indian side were not natured enough; not comparable to the Chinese standards both in legal and regulations. India is run on the federal system, thereby each State has its own independent tax policy. In addition to this, the most crucial factor was that the Chinese company was not able to get the executive control of the joint venture. The KONKA group's happened to be in the mildest of managerial transition that made things worse. This was the rough sketch leading to the unsuccessful ending to their Indian joint venture per se (Notes 8).

Nevertheless, the India market was equipped with best conditions second to a European and American market. The Indian market for electronics consumer goods had and still has great sales potential , say, the cathode-ray TVs have estimated growth rate of 15 to 20%, so the KONKA group could not fully give up the market. Toward end of 2003, they invited an Indian officer to their home office and had talks with regard to the best possibly way to penetrate the Indian market they once failed. The way they tried would bring only small profits for the value they invest, therefore, they are strategically interested in producing the goods under the OEM method with close collaboration with a local partner. Under this method, they regained the once withdrawn Indian market with annual sales of 50,000 sets of color TVs (Notes 9).

〈TCL group〉

The company that entered the Indian market after the KONKA was TCL group. The TCL is based on Guangdong Province, China. They had a tie-up with India's Baron International and invested 20 million dollars on 50-50% basis to set up TCL Baron (India) holdings in May, 2000. The scheme of the JV was that the Chinese company would offer parts while Indian company would take care of local market. The color TVs would be locally assembled and marketed under TCL brands. Since initial production in August 2000, the JV company soon set out establishing processing plants in six local cities, until they had twenty nine subsidiaries, CKD plants in eleven locations, and they are said to have reached break-even point of their local production. After one year since the operation, they were able to attain more than 50 million dollars worth of sales (Notes 10).

Still the fact was that the TCL products were exported to India prior to their entry to India. The products were well received in the local Indian market. Toward end of 1999, trial sale was attempted for testing and assembly of color TVs, VCDs, and the local sales of 25million dollars were recorded. Their products were ranked No.7 out of top 10th. The market share rose one time to 5% out of the 2.7% that they had a year ago. Even Sony took four years to attain the 5%. The competitive edge of the TCL is on their excellence in quality for their lower price. Coupled of their competitiveness for offering lower price level, the company was able to keep expanding their local market share. For instance, 21” color TVs had price range between 190 and 220 dollars, while Koran counterpart, LG had about 290 dollars. For 29” color TVs, the local BPL had 700 dollars, while TCL offered even lower 460 dollars (Notes 11).

Their operation had twists and turns as well. While the local sales constantly grew, the Indian partner Baron’s financial conditions worsened, and a lot of disputes and disagreements were erupted. TCL explained “this is because they had a big difference in the way they explored the local market besides philosophical differences over management. The TCL finally gave up the partnership in2002, and sought reapplication for 100% ownership” (Notes 12).

The Indian partner Baron did not listen to the request. The Baron not only accepts the termination of the JV contract insisting that the contract was still effective, but also they refused for long to submit NOC (Non Objection Certificate). The NOC represents an agreement between the both parties as is defined in Press Note 18 in 1998. The FIPB (Foreign Investment Promotion Board) finally approved their application for 100% ownership in December, 2003 after closely one year interval (Notes 13).

Thus TCL was able to officially set up TCL India Holdings, a subsidiary in March, 2004. The company has a plan to obtain No.2 position in color TV market in two years. They are trying hard to establish channels of distribution therefore, and an earlier local production. They find that the cost reduction is the utmost priority to achieve this objective. On this, Mr. Yi Chun-yu in charge of this foreign-operations at home says, “TCL has seven strategic processing centers in India, and now we are negotiating with the local government for our own factories. The year 2004 will surely see our targeted 1 billion yuan (about 120 million dollars). At this rate we can achieve the objective within three years from now.” As for negative evaluation from certain consumers, they replied that now that TCL purchased French Thomson and Alcatel, they can improve a far better image than now to Indian consumers. The fact they will obtain the ten year old market that Thomson explored will be a further help (Notes 14).

TCL India Holdings made public at a press conference on December 23, 2004 that they would set up a plant in Andhra Pradesh state of southeastern India with 1 billion-rupee (about 20 million dollars) investment in partnership with Sri Nahusha Electrics. The joint venture is of 26% ownership from the Chinese side and of 74% from the Indian ownership.

The local State government made public as well that as a part of incentive programs to user in foreign capital, they would offer about 100,000-sq m land plus 100% exemption of gross receipt tax for the five years. This joint venture will be carried out on two stages. For the first three months (toward the end of March, 2005) the plant is made to be ready for operation, and for the second stage, toward the end of November, same year, actual production will start for various consumer electronic products. They envision initial production capability of their flagship color TVs at 50,000 sets per month, and the rest of the products such as DVD, VCD, air conditioners, refrigerators, cell phones will follow. The production is mainly for export to other countries, particularly aimed at Asian markets. The company is already producing 100, 000 sets of color TVs in India, and they will raise the production up to a 600,000 level by2005 (Notes 15).

As already described, unlike other manufacturing having hard time in India, LG, a major Korean electronics manufacturer (their combined share of air conditioners, refrigerators, washing machines exceeding 30%), as well as Korean companies represented by Samsung Group. The reason is that from the moment of their local presence their decision is made on speedy top-to-bottom that is to say by top ranking officers of the management direct to the bottom often with substantial whole lines of their products. This makes a contrast with Japanese counterparts, who start with a single line. Their strategy is efficient for the brand recognition in the local market as their combined loan services for consumers are also effective. The Korean way of comprehensive and yet detailed marketing speaks volumes of their success.

(3) Fiber (raw silk and silk fabrics)

In hot Indian climate, women often wear a traditional sari and men do doughty. The sari is made of a long sheet of cloth as long as 4.5 to 4.8 meters and as wide as 1.1 to 1.3 meters , and the cloth is worn in such a way that a wearer muffles it around her neck and tangle it down through a shoulder to a lower body. The most preferred fiber is cotton, for its lower price, but silk is often demanded by the rich. There always is high demand after silk material.

Although the annual local production of silk is 15000 tons in India, 9000 tons (about 40% of the total demand) of silk are imported from China in order to fill in the local demand of 20,000 tons. The import of silk is not confined only to raw material: they come in as finished products. The statistics in China says that their exports of silk to India was 62,220,000m in quantity (No.

1 of the exporting countries list), and 85,530,000 dollars (the 2nd place that ranks second to Hong Kong) in value. Availing of the top ranking silk fabrics producer, a private company in Yunnan province has presence in India for their great consumption potential, though its production still remains small.

(4) Software development

The software industry in India has made a rapid progress, whose export shows more than 50% growth rate per year since 1990s. According to the India Software Service Association (NASSCOM), software exports to other countries recorded 12,800 million dollars in 2003, about six times as substantial as that of China. In 2004, the amount was 17,200 million dollars, 34% up than the previous year, showing more than 25% than their estimate. Chairman Raghavan of Acme Technologies, a software development company in India comments that "thanks to the 2000 Problem created software demand on a global scale and Indian companies got many benefits out of it" (Notes 16).

As for recipients of FDI in offshoring services, India is ranked No. 1 for three divisions. Offshoring meaning acceptance of services from the foreign clients, often known as Business Processing Outsourcing (BPO) is classified into three major fields of category:

1) Call Center
2) Back Office Operation
3) IT-related Service Acceptance (software development, contents)

Both India and China are highly ranked as recipients of both Call Center and IT related services, but India outperforms China in cost performance both for the said service category, with Indian's 0.29 dollar per transaction, and China's 0.52 dollar respectively. The outstanding service in Indian software performance attracts global attention, as well as visits by clients, which is favorably compared to quality of Chinese manufacturing capability often referred to as "Factory of the World" of tangible goods attracting establishments by foreign interests. The number of visitors of the Chinese governmental agencies and IT businesses has been on rapid growth. Visitors from Dalian, Shanghai, and Sichuan are among them. The 27 member mission group visited India under sponsorship of Beijing Software Association in February, 2001 (Notes17). The fact alone explains growing close cooperation between both IT companies in electronics filed.

〈Huawei Technologies〉

Huawei Technologies Co. Ltd. is a major communication technology company in Shenzhen, Guangdong Province, China. This private company is aggressively accepting software development in India. They being good at technology have more than one thousand technical staffs covering Beijing Institute for data communication, Shanghai Institute (mobile communication). Besides these locations, they entered a foreign country in 1995 and now have R&D facilities in India (Bangalore), the United State (Dallas), Sweden (Stockholm), and Russia (Moscow).

The company earns 46,200 million yuan as gross sales revenue in 2004, and 33,300 million yuan in the first half of 2005. The overseas revenue is 2,470 million dollars in the year accounting for 62% of the total sales (41% in 2004). The year marks a epoch-making in that the company's overseas sales exceeded that of the domestic market for the first time (Notes 18).

Behind excellent business performance, Huawei entered the Indian market back in 1999 with 1000 employees, of which more than 95% are Indian nationals. Their Indian operation is carried out by two companies. One is located near Delhi, the capital city of the country. This local company is engaged in production, assembly of communication equipment. They also offer technical assistance to clients. The other is near Bangalore, a major city in the south. The company serves as a research institute, the largest facility of the company. It employs 200 researchers on invitation basis. Their future plan says that local employment will expand up to 2,000 by 2008, ten times against the current level of employment. When the Indian Minster of Communication visited their facilities in China in July 2000, the Minister paid also a courtesy call to their head office, and applauded, "Your company's presence in India is exemplary symbolizing close industrial cooperation of IT industries of both countries" (Notes 19).

The said two corporations have invested combined 100 million dollars worth investment in India, with additional investment of 100 million dollars within several years to come. Referring to the additional investment, Wen He, a director in charge of local Indian operations commented "We applied for trade approval in March, 2005. We also made application for approval for establishment of a new production facility for 60 million dollars in Bangalore. We are still waiting for approval from the local authorities." In mid August, 2005, Indian authorities set up a commission represented by Ministries of Communication, Defense, Foreign Affairs etc was organized to evaluate their proposal. The committee studied the plan and later on submitted a negative recommendation to the proposal by the Chinese company (Notes 20). As of today, there has been no official reason for their disapproval, but it is inferred that the Chinese company had offered communication facilities to Afghanistan, so did communication software to Pakistan, which may have made the commission in charge too cautious for national security reason to approve the investment plan in India (Notes 21).

While the Indian authorities seem to be uneasy about their application, the Chinese company is determined to keep applying for permission. Indian government is yet to make its stance publicly known, that keeps us all the more attentive for its outcome.

Conclusion

China and India have celebrated in 2005 the 55th anniversary for establishment of their diplomatic relationship. Chinese Wen Jiabao paid a formal visit to India the same year, to honor the important turn of the age. His call to India is the first time since former Prime Minister Zhu Rongji visited China. The jointly signed announcement says, "Strategic partnership is concluded herein for peace and prosperity for both nations." The signing of the agreement promised a step toward the time-honored politically sensitive border dispute. Also several papers were signed on mutual assistance for more investment, scientific, and cultural exchange promotion. Both nations also agreed to attain commercial objective of realizing 20 billion dollars worth of combined trade by 2008, agreeing to launch co-study on Free Trade Agreement (FTA), and setting the year 2006 as "Sino-India Friendship Year". Both China and India have entered the new age of commercial development.

Despite the trade volume, the investment by Chinese companies in India is still on early stage of take off just after leaving behind the early stage of late 20th century. Future development of mutual investment depends on how early and seriously they can carry out what are agreed in a series of paper they have just signed. Joint efforts for that goal by governmental and private sectors are imperative.

So then, what about the investment application by the Chinese company in suspense? This case had occurred less than half a year since the visit by Wen Jiabao. The application is presumed to be still kept unprocessed for national security reason. Another case is coming up to the surface. The Mumbay Port Trust, a major India port management company, is shutting out Hong Kong based Hutchison Port Holdings out of their bidding for the projected new port facilities just like they did for Huawei (Notes 22).

A negative view to look at the agreements seems to prevail in India that "agreement and implementation are still another matter." It seems that their cautious attitude toward Chinese interests still exists. Depending on how the Indian government turns, the fledgling trade and investment relationship may be jeopardized.

The commercial interests guide themselves, however, to the mutual satisfaction, independent of the way those of the governments dictate. If so, industrial interests will go to a desired direction of mutual benefits, overcoming twists and turns, both private and official, which will stand on its way. The fact still remains that both grown-up China and India will keep attracting us no matter what they head for in the future.

Notes and references:

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