



Chinese Investments in India: Challenges And Opportunities

Speaker: Santosh Pai

Chair: Dr. Jabin T. Jacob, Assistant Director, ICS

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Santosh Pai in his presentation made an attempt to analyse the various challenges faced by Chinese firms investing in India, while also looking at the opportunities that China could gain from investment in India. The speaker referred to India as the best destination for Greenfield investment which is important in the context of Chinese investment preferences. He added that both India and China are in the list of top 10 investors and recipients and there is a huge scope for cooperation in the field of investment.

The speaker began by pointing out talked about 3 waves of Chinese ODI (Overseas Direct Investment). First of all, it was mostly resources and government – led. In the second phase as privatization started taking place in China, Chinese ODI started diversifying and became technology-seeking. The final wave of Chinese ODI is more market-seeking in nature. The speaker further informed that it was only in the third wave that India emerged on the horizon for Chinese investors and it has been the most active phase for Chinese investment.

Delving deep into the main part of the presentation, the speaker explained the essential details regarding Chinese investments. Chinese investment really took off after 2005 as before that it was a rare phenomenon for Chinese companies to invest overseas. The speaker revealed that liberalization acts as a proxy for any government related change. In other words, if the domestic policy in China is geared towards outbound investment, then Chinese investment in India is bound to go up. India has a big market for Chinese products. The need for Chinese investment in India was also highlighted given the trade imbalance that exists between India and China and thus the need for investment. Whenever there is an increase in demand for Chinese products in India, the number of Chinese companies selling their product increases accordingly leading to a decrease in margins. As a consequence, the Chinese companies are left to decide either to quit the market or to invest and do backward integration creating a manufacturing base in India. This is the case with almost every sector of the economy. The speaker argued that this year India's growth rate surpassed that of China which gave a positive signal to even small companies in China which had no knowledge about India earlier. Regarding the Ministry of Commerce (MOFCOM), the speaker mentioned that until 2013 every foreign investment from China to any other country required their approval. For the

period 2002-13, there were 311 projects approved by Chinese government for investment in India. But there is difference in this number as recorded by RBI and according to the speaker, this is because RBI tracks only mainland china.

In the next part of the presentation, the speaker highlighted five models wherein most Chinese companies in India fit into.

1. Suburban sales office model- a small office is opened in the suburbs of India in order to reduce cost and to have a very peripheral presence so that they can actually be in India physically and go to any part of India at short notice. However, such companies fail to make any meaningful headway because they lack a substantial presence which distorts their perception by others. Additionally, absence of capital equipment also limits their success.

2. Minefield approach- two to three individuals act as proxies for a large company giving the company plausible desirability. However, the risk is unknown and the approach usually fails due to lack of credibility.

3. EPC to investment model- This model includes those projects which are well planned at their headquarters and can lead to substantial investment if successful. However it normally fails due to factors like cost overruns, delays, land acquisition or wage disputes.

4. Joint venture- These stem from a very common sense approach. If it is a promoter company from India which promotes travel to China then it generally develops a relationship with a Chinese company and they just tie up their synergies. The initiative is successful only if there are strong synergies but Chinese technology is usually a sticky issue and ends up being a tussle issue.

5. Gambling on internet startups- this model is about those startups which are good places to get funds but also suffer from serious limitations of being seen as gambling hubs. This generally occurs because Indian startup ecosystem is not very mature and valuation is a big challenge.

The speaker then went on to analyze the type of Chinese investments in India. He informed that most of the Chinese investments fall into two categories: greenfield or acquisitions. Acquisition is most sustainable because it allows Chinese companies to work in the area in which they are sound. He then moved to the very important issue of possible risks or challenges faced by Chinese companies in India. First, he pointed out India's complicated tax structure. The Chinese find it very difficult to deal with the Indian legal system. The Indian FDI decision making process is centralized with no preferential policies for encouraging foreign investment. Secondly, there are a host of bureaucratic delays faced by the Chinese investors in India. Lack of reliability is the next challenge that the Chinese face. It is generally difficult for Chinese investors to find a reliable Indian business partner. He also pointed out the fact that India does not have any influential overseas Chinese population which in other countries acts as a major source of interrelationships and investments. Finally the speaker talked about the poor institutional linkages, lack of technocrats and absence of technology specification in India. The speaker also threw some light on the human challenges

related to Chinese investment in India. He argued that the top talent in India stays away from Chinese companies and good Chinese managers are reluctant to re-locate in India.

In the last part of the presentation, the speaker discussed the incentives that will encourage China to invest in India. First of all, Chinese investors should be provided with reliable Indian business partner so that a lack of trust does not become an issue.. Availability of cheaper land can be another incentive as the cost of land is not included in the investment model of most Chinese companies. By way of concluding the presentation, the speaker argued that the 'Make in India' campaign can only be successful, if there is substantial Chinese investment in all the sectors in India coupled with technological upgradation and an eagerness to tap capital intensive investments.

Discussion

In the ensuing discussion, many interesting questions were raised. A pertinent query related to the expression of 'uncomfortable things' used in the presentation with regard to the mergers and acquisitions and whether it pointed to issues such as corruption. The speaker replied that he referred to the attitude of the workforce and the kind of infrastructure which the company automatically gets in an M&A as uncomfortable things. Corruption is not an issue. Another interesting question concerned any special problems that Chinese SOEs face in obtaining an approval from Indian regulatory authorities .The speaker responded to this by pointing out the fact that M&As do not require government approval barring some exceptional cases.

Report prepared by Deepabali Bhattacharjee, Research Intern, Institute of Chinese Studies.

About the Speaker

Santosh Pai is a Partner at an Indian law firm and also the Founder and Head of the firm's India-China legal practice. The firm advises some of the largest Chinese investors in India and also helps Indian companies in negotiations with Chinese investors. He has lived in China for five years and visited more than 40 cities. He is an alumnus of the National Law School of India University, Bangalore. He has undertaken an MBA at Peking University and a Master's Degree in Chinese laws at Tsinghua University. He is currently working on a research paper about Chinese Investments in India.

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