Institute of Chinese Studies
ICS Analysis
中国研究所 DELHI

No. 29 March 2015

Applying the ‘Going Out’ Strategy: Chinese Provinces and Cities Engage India

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As the trade volume between India and China has gone up since 2001, economic diplomacy remains a driving force behind bilateral relations. According to statistics from the Indian Ministry of Commerce, trade remains at the centre of these economic engagements (DIPP 2014). But trade relations do not favour India and the increasing trade deficit with China has created serious micro-economic complications for India (such as dumping, restriction on SME growth) which led to increasing trade restrictions over Chinese imports. These externalities along with excessive export-led GDP growth forced China to take a fresh approach towards its industry and trade models. A couple of remedial policy interventions were made to initiate the re-balancing of the economy.

The ‘going out’ (zou chuqu, 走出去) policy is one of such interventions by the Chinese leadership which desired to look beyond momentary and short-term trade by building a grid of industrial repositories abroad to generate sustainable inter-dependency through enhanced trade and investment. This sort of outbound investment in emerging markets aims at reducing the sectoral imbalance within Chinese economy by giving its industries (both public and private) better access to foreign markets and protecting Chinese labour from exposure to export volatility. As a result, economic relations between India and China have experienced changes. While the amount of trade continues to surge, the investments have provided ancillary strength creating economic synergies between the two countries.

Moreover, Chinese investment pertaining to its ‘going out’ policy is used to assure India that its concerns over the trade deficit are addressed and forms an indirect way of bypassing the trade remedies employed by India over Chinese imports.

Contextualizing China's Sub-national India Approach

TThe state enterprises were often termed as 'pioneer' (xianfeng, 先锋) and 'vanguard' (kaituozhe, 开拓者) in fulfilling the obligations pertaining to 'going out' strategy (OCAO 2011). But against the backdrop of stricter reforms in centralized SOEs and restructuring , sub-national SOEs have risen to prominence as local governments adopted policies favouring local businesses (Gang and Hope 2013). The sub-national drive in China for seeking investment and trade avenues abroad has been supported with regulatory modifications making 'going out' possible for state-owned and private enterprises. And it is the provincial governments, provincial SOEs which have effectively followed this as a strategy (zhanlue, 战略). On the ground, the provincial councils of China Council for the Promotion of International Trade (CCPIT) have drafted strategies to pursue region-specific policies.

Private enterprises have also been given preferential treatment to participate in globalizing their activities in line with the broader strategy. State agencies have been involved in educating and persuading SOEs to take this up and in one such endeavour, in 2006, the State Council's Overseas Chinese Affairs Office organised 4th World Chinese Forum centred on China's going out efforts (OCAO 2011). As a result, by 2010, as per the Statistical Report on China's Foreign Direct Investment, the SOE's share in China's non-financial overseas direct investment accounted for 66.2 per cent (SASAC 2012).

It is this political pressure to reinvent economic trajectories that has also led to a significant rise in the level of interactions between Indian and Chinese economies. Investments and trade delegations from Chinese provinces to Indian states are not only limited to SOEs and local governments but also include provincial private enterprises.

> *Investments and trade delegations from Chinese provinces also include provincial private enterprises.*

Sub-national Economics and India-China relations: Complementary Properties

Given their reform and opening up timelines and complementary properties, China's 'going out' strategy supports India's efforts to attract FDI (*IBD* 2015). The Indian economy, US$2 trillion in size, is struggling to balance its sectoral growth by realigning its resources of production along with the factors of market. Specifically, Indian states are playing a crucial role at this stage. The pre-liberalization division of federal responsibilities restricted the role of sub-national actors in India - states could not influence investments and were restricted from taking a stand on foreign economic affairs. The economic liberalisation in the early 1990s encouraged these sub-national interests to realign their economic resources. In China meanwhile, the CCPIT actively studied the legal as well as economic dimensions of the Indian state during this period (CCPIT-EIC 2007).

The new market space, sources of production (including land and labour) at the sub-national level turned Indian states into hotspots for FDI (*FFD* 2014). This is further attested in a study conducted by Atri Mukherjee, which indicates that market size, agglomeration effects and size of manufacturing and services base in Indian states have significant positive impact on FDI flows but what disrupted this flow was taxation and the cost of labour (Mukherjee 2011: 99). Hence, sub-national forces in India, which remained over-dependent on federal facilitation in the 1990s, underwent phenomenal transformation. The rising pressure on existing local resources to meet the fiscal deficits created by falling revenue and receding capital resources forced these sub-national actors in India to adopt conscious efforts in line with the national policy reforms. One more sub-national aspect, which turned India into a favourite FDI destination (including that for China) was the land-use permits local governments could use to promote investments (*FFD* 2014). In fact, this is a major reason why Chinese investments in India are directed to those states which are using land-use permits and related incentives to attract foreign investments.

Consequently, Indian states are engaged in a fierce competition to attract overseas investments, including from China. For instance, the newly divided Andhra Pradesh is offering several concessions to investors including tax holidays, excise duty exemptions, concessions in entry tax, interest-free loans of central sales tax and free land (Yinduabc 2014). Such opportunities complement the Chinese guidelines of protecting and expanding existing sales revenue and increasing market share abroad, increasing profit margins through backward integration and entering into a new market. Thus, the Indian market, and especially, the sub-national drive for investment promotion and facilitation, is turning India into a rewarding destination for Chinese companies seeking to achieve each of their investment objectives and to justify significant long-term presence. Thus, it is the case that China's 'going out' strategy and India's sub-national need for growth are synergetic.

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How Chinese Provinces are Planning their Engagement with India

With the multiple economic complementarities surfacing, regional entities in China adopted new approaches to fulfill them. Moreover, the rise of the Indian economy from 2000 onwards provided further momentum. The Chinese noticed that the Indian economy's progress was consistent, considering its performance relative to Chinese industries. For example, between 2000 and 2005, Indian industry's investment in new plants and equipments was equivalent to that of China's. During the same timeline, India's inbound volume of FDI at just half of China's inbound FDI still resulted in the impressive GDP growth rate of nearly to 10 per cent (Huang 2009). The Chinese noticed the intensity of reforms and its effects on Indian economy and as a result, a number of Chinese provinces which did not have any substantial presence in India began exploring possibilities to partner with their neighbour (*CNW* 2014). These engagements covered trade as well as investments. As business between the two countries increases, Chinese provinces are taking a lead role in facilitating these engagements; the opportunities for Chinese investments in Indian sub-national economies are immeasurable (Yinduabc 2014).

There are increasing numbers of Chinese sub-national trade missions to India.

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. For instance, 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 (*TOI* 2014; CGIS 2014; CCPIT-GS 2015; CCPIT-SC 2014b; *Guangxi News* 2014). The Zhejiang delegation headed by the provincial Party Secretary Xia Baolong signed 11 cooperation projects and contracts worth US$2.5 billion (*Livemint* 2014). In another case, a MoU was signed between the Maharashtra state government and the Wenzhou municipality (under the Zhejiang provincial administration). The motive of the MoU between Wenzhou and Maharashtra was to set up power plants, power plant supply industries and equipments in the state (*Trade Fair News* 2014). Similarly, the second-largest city of Guangxi Autonomous Region, Liuzhou, an industrial centre, went a step ahead and signed a letter of intent to establish Sister City programme with Indore (the capital of Madhya Pradesh state) (Wang 2009).

In a similar case, 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. This underlines 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.

Apart from these delegations and trade fairs, there is another 'going out' to India model employed by Sichuan province. Although, Sichuan entered into the Indian market a little later than the coastal Chinese provinces[1], it has been one of the important players in India. Comparing Sichuan province's 'going out' policy vis-à-vis that of the coastal provinces will not be appropriate since the bases of these provincial economies are different and hence their intensity towards India as a choice for overseas commercial engagements also differed drastically (CGIG 2015). However, when one compares Sichuan's strategies towards India with those of say, Guangxi province (a relatively weaker province – in terms of its GDP contribution and share in China's total exports), it is comparatively easy to make out the intensity of 'going out'.

In 2009, Guangxi Liugong Group specializing in excavators, loaders and other

[1] Sichuan province remained economically insignificant until the Western Development Strategy (WDS) introduced by the central government in 1999. Sichuan province's 'going out' strategies started taking shape only when the private industries flourished and its SOEs received centrally-funded projects. For example, from 1999 to 2008, the Western region received a total of 143 key projects, with a total investment of over RMB2874.2 billion (Lu and Deng 2011: 5). Sichuan being an important traffic corridor and having high innovative potential for industries received a large share of these investments which bolstered its economy. At the end of the first 10 years of the WDS, Sichuan's GDP had reached US$175 billion, four times the figure in 1999 (CRI 2010). This obviously increased its interest in the 'going out' strategy.

heavy machinery and equipment – established its first overseas production unit in Madhya Pradesh near Indore. The setting up of the actual plant took over seven years, starting from conducting a two-year feasibility study to four intensive site visits in India (Peng 2014). Presently, Liugong covers over 60 per cent of the Indian market and has a remarkable pool of customers - for example, out of India's top ten engineering contractors, seven are customers of Liugong (Peng 2014). The CCPIT Sichuan Council (CCPIT-SC), on the other hand, developed a model of holding the South Asia Economic and Trade Roundtable in Chengdu since 2010 to provide more integrated exposure to its local industry. Officials from embassies and consulates in China, SAARC countries, Chamber of Commerce representatives of each country, and representatives of Sichuan infrastructure construction entrepreneurs are invited every year to attend this two-day conference. The theme of the latest roundtable held in June 2014 was 'New opportunities for infrastructure construction and development in South Asian countries' (*Nanya guojia jichu sheshi jianshe yu fazhan xin jiyu* - 南亚国家基础设施建设与发展新机遇) (CCPIT-SC 2014a; CCPIT-SC 2014b).

At the same time, Sichuan also follows traditional patterns. For instance, it has shown interest in setting up a specialized industrial park in Madhya Pradesh which will consist of Chinese companies interested in agricultural industries and enterprises. In May 2013, the Madhya Pradesh Tourism Bureau signed a property development project agreement with Sichuanese partners in an example of how the Chinese are also trying their luck in public non-manufacturing industrial sectors (CCPIT-SC 2014c). Looking at the prospects involving these sub-national entities, the Sichuan administration may look to Madhya Pradesh as its partner of choice to develop their sister-state program.

Chinese municipal- and prefectural-level entities are exploring possibilities of tie-ups at all levels of the Indian federal system.

Similarly, 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 (CCIC-JCC 2013). Other provinces in China are also following this trend and hosting events to begin their engagement with India. For instance, 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 (CGIS 2014; CGIS 2013; *Xinhua* 2013).

While each Chinese provincial CCPIT is looking for complementarities with Indian states, Gujarat's profile seems to fit their trade and investment goals best. Gujarat is recognised as India's equivalent of Guangdong which drove the Chinese economic growth throughout the 1990s (*Huanqiu.com* 2014). Given Gujarat's manufacturing abilities and infrastructure, the Chinese are finding this state as one of the best investment destinations to invest and forge partnerships in. Sichuan, Zhejiang, Guangzhou and Shanghai have thus, already promised investments in Gujarat (*Business Standard 2015*; CCPIT-SC 2015; *Huanqiu.com* 2014). The Chinese are set to invest in a number of segments in Gujarat including infrastructure, heavy machinery, renewable energy, textiles, heavy engineering and auto sector (*Business Line* 2014).

Apart from investment in tourism, infrastructure, and industrial products, there have been initiatives from Chinese provinces to explore possibilities in agro business as well. Following Sichuan's agreements with the Madhya Pradesh government, Gansu provincial CCPIT is considering partnering with Indian states in agro commodities (CCPIT-GS 2015). In another case, Jiangsu province will provide assistance to collaborate with the state of Punjab for a 'twin province' project for promoting fresh water fisheries (*TOI* 2014).

Here a special reference to China's approach towards India's northeastern states is worth mentioning. Between 10 and 15 February 2015, Baoshan City participated in the Second International Agricultural Horticultural Exposition which was held at Guwahati and organised by the state of Assam (*Fairinews* 2015). The approach of the Baoshan municipality shows that Chinese local actors attach are seeking to exploit smaller Indian markets through a range of exclusive products. This not only includes agricultural products but could also cover Yunnan's interest in controlling the local red meat commodities supply especially because China has mastered the management of livestock production, distribution and supply chains (Aubert 2008: 5); (Hinh et al. 2013: 181-182). The provincial delegates and the trade representatives from the Yunnan province frequently refer to the historic trade routes between the India's northeastern states and itself as the historical basis for the impending trade opportunities, which is nothing but a localised rationale behind provincial economic diplomacy.

Why Chinese Localisation is Succeeding in India

TThe competitive advantages of Chinese firms in terms of the exposure to technology and the experience of working with the markets of developed countries enabled them to further internationalise their operations in India. Their expansion is also about their competitive profile based on technology which matters in their India strategy rather than just quantity-oriented manufacturing and trade (Zedtwitz 2005: 138). Apart from analysing the technology-based competitive advantage in the domestic market as a factor for international expansion, it is equally critical to examine other dynamics behind the surge of investments in India. Since the 'going out' strategy was formalised the public enterprises initially pursued it followed by the private enterprises as Chinese businesses took their cue from the economic guidelines put in place by political institutions. The 2012 US House Intelligence Committee, for example, revealed the role of the Chinese state in outward investments and the 'going out' plans of several Chinese enterprises to the US (HPSCI 2012). This is also an established fact as far as African and LAC market dominance by the Chinese firms is concerned (CASS 2004).

Overall, the trend shows that Chinese sub-national economic forces, with the help of their governments, are trying to build parallel trajectories towards the Indian state. At a macro level, this also specifies the influence of sub-national actors on foreign policy patterns between the two countries. It needs to be noted that the Chinese have higher stakes in exploring novel ways to engage with India whose economy is just US$2 trillion. As a result, new policies such as 'going out' will be critical for the Chinese national economy and provincial actors especially will benefit from them. On a broader scale, it marks the beginning of a new kind of economic interaction between India and China.■

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