India-China Trade and Investment

Working Paper 2

May 2019

RAJIV GANDHI
INSTITUTE FOR CONTEMPORARY STUDIES

Author:
Mona Dikshit, RGICS

Review and Editing:
Mr. Vijay Mahajan, Director,
Rajiv Gandhi Institute for Contemporary Studies (RGICS)

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India-China
Trade and Investment

This is the second and final Working Paper of the ongoing Study called "Chinese Goods, Make in India to Create Jobs" that commenced in December 2018 and will end by August 2019. In view of our ongoing findings we have adjusted the study focus and renamed it "India-China Trade and Investment". The Final Report will be published after conducting Sectoral consultation workshops at State level followed by study tour to China and consultation with Chinese counterparts.

1 Introduction

This is the second working paper for the Study, earlier called "Chinese Goods, Make in India to Create Jobs", launched by the RGICS in December 2018. The first working paper is available[1] on the RGICS website. As the study proceeded, we felt that merely focusing on localisation of production of imported Chinese goods is an inadequate strategy and we need to focus on investments along with trade, and within trade, also on enhancing Indian exports to China. Hence the study has been renamed as "India-China Trade and Investment".

1.1 Study Rationale and Focus

India has a serious problem on its hand in the area of trade deficit with China as the total value of exports 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[2]. Policy makers will have to find ways to manage this huge deficit given that India can neither afford to limit its economic engagement with China nor continue with such a huge bilateral trade asymmetry for a long period of time.

For China with its qualitative improvement in the labour force, the domestic sector is gradually shifting towards more knowledge-intensive industries. In the process, China has started losing its cost advantage in several sectors that span the primary, resource as well as labour intensive industries (WTO, 2012). Some of these industries are shifting out of China and re-located in other countries including India but India needs to gear up for such a role. China, one of the largest global investors, is keen to leverage the potential of India's skilled workforce and rising labor supply to partially relocate production to counter its shrinking and ageing work force.

India needs to create jobs: two thirds of India's population is under 35 and in the next decade, India will have more people of working age than anywhere else in the world. A rapidly growing manufacturing sector is the only way India can create highly productive jobs for the 10 million-plus youngsters who join the country's labor force each year including the large number of rural youth which the agriculture sector cannot absorb. The Government of India targets to grow the manufacturing sector's contribution from 17 percent of India's gross domestic product (GDP) in 2013 to 25 percent within the next decade (http://www.makeinindia.com)[3]. A strong manufacturing sector is critical for an economy like India, considering the huge employable workforce in the country and the need for self-sufficiency in a number of sectors to bring down the trade deficit.

India is among the five largest markets for Chinese goods. Localizing the manufacture of hitherto imported Chinese goods which are anyway being consumed in the domestic market, we can make in India and create jobs, increase employment opportunities and enlarge the share of the firms located within India in the domestic market. Foreign (Chinese) investors will also be attracted by the profitability of local over foreign production, especially for sales in the domestic market.

In spite of an unresolved border dispute and other differences on geopolitical issues, India continues to be more than welcoming to Chinese companies keen to do business with it (www.ICEC-council.org). For setting up competitive domestic production of identified items, the potential of a strategy of Indo-Chinese Joint Ventures (JV) with Chinese private investment in technology and capital will be studied based on the following premise: Since more than two decades, China has developed and used the technology for the manufacture of the goods we seek to make locally, so sourcing already available technology from China benefits them to move up the value chain - the path that China is following now. For India, the technology is likely to be cheaper and more suitable to import, than looking for technology and investment from say a European country. From the Chinese perspective, JVs with Indian MSMEs has the advantage of providing an existing and larger growing domestic demand as compared to say Vietnam or Cambodia.

The Government of India under its Make in India policy has identified and focused on MSME as one of the potential sectors among others. In its “Achievement Report Feb 2017” it is stated that Micro, Small and Medium Enterprises (MSME) sector is one of the still untapped high growth segments in India and an essential partner for achieving socioeconomic growth. MSMEs, which are spread across both urban and rural areas of the country, mostly form part of the unorganized sector. The sector contributes 7% to India's GDP while accounting for 45% of the total manufacturing output and 40% of the exports from India.

The study will focus on the MSME sector since the potential for creating jobs and employment in large numbers, and building competitiveness through item-specific regional manufacturing/ production hubs is feasible with MSME clusters. This is a tried and proven strategy in China with its Township & Village Enterprise (TVE) program, in Japan (one district-one product) and indeed in India in MSME clusters towns like Tiruppur Hosiery Cluster in Tamil Nadu, Diamond Cutting & Polishing Cluster in Surat, Knitwear Cluster in Ludhiana, Brasswork Cluster in Moradabad, Ceramic Tile Cluster in Morbi, etc.

Employment growth in the manufacturing sector has remained low, and indeed there are prospects of further slowdown as automation takes off even more broadly. Thus in manufacturing, if jobs get created these would be in the small and medium enterprises (MSME) sector in smaller towns, particularly MSME cluster towns of which there are about 400 well established ones and less capital intensive micro-enterprises in rural areas (such as handloom and handicrafts).

1.2 Issues Regarding India-China Trade

The level of India-China trade deficit accounts for around two-thirds of India's total non-oil trade deficit and this is not sustainable. As he took charge in Jan 2019, India's new Ambassador to China Mr. Vikram Misri stated "Addressing this trade deficit would be one of my priorities because it is not really sustainable in the long term".

Even as India makes efforts to increase its exports to China, China has begun to ship some of its products through Hong Kong rather than its domestic ports. In addition to this there are Chinese imports coming into India via Singapore and Maldives. Mr. Hazari[4] informed that there are a lot of Chinese products including lentils coming via Singapore, Thailand, Australia and Malaysia with whom we have a FTA, and this does not get counted in the figures under Chinese import data. So apart from direct import from China we have a substantial indirect import from China. 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.

The Centre for Economic Studies and Planning, Jawaharlal Nehru University published in March 2019 its analysis, that more than the increase in imports, it is the composition of India's trade with China that is of real concern. Imports from China are primarily in two commodity groups — electrical and electronic equipment and pharmaceuticals. In 2017-18, almost 60 per cent 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. China supplied more than 80 per cent of the antibiotics imported by India, and well above 60 per cent of electronic products and components.

Thus, some of the key sectors of the Indian economy are critically dependent on China. In sharp contrast, India's top exports were mostly intermediate products and raw materials. These included cathodes, petroleum oils, intermediate products for the producing films and plastics and iron ore and concentrates. The broad sectoral trends of the exports of China and India show that for the latest 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.

For decades, India has been famous for its highly competitive technology and capital-intensive industries like pharmaceuticals and IT services. While India's intermediate tier industries like mobile phone and automobile parts manufacturing industries have made major progress in recent years, they still lag behind in terms of international competitiveness and industrial ecosystem. Counter intuitively, India's labor-intensive industry is disproportionally underdeveloped, leaving its huge workforce largely untapped. **This does not take care of India's huge domestic demand for manufactured products, which means Indian consumers have to rely on imported goods.** Neither does it provide enough employment opportunities for India's ever-growing workforce, making job creation a challenge for successive Indian administrations. This is doubly worrying as a large scale of unemployment is observed in the country. The Indian government is looking to grow the country's manufacturing sector by about 20-25 per cent, for which the country needs financial and technology investment.

It is in the interest of China to not only trade/sell, but also invest to make in India for the following reasons:

[5]China is not a significant and substantial investor in India as compared to Singapore, Mauritius and Switzerland. Conversely, in recent years, China has invested heavily in billions of dollars in various countries. Unlike trade, levels of investment between China and India remain relatively low. Cross-border investment remains low because Chinese and Indian companies are still in the early stages of learning how to operate and succeed in each other's economies.

China is in transition: from cheap goods, China is shifting on to produce quality goods both value and number-wise and has been slowing to modify and replace its capital equipment. China's economy is facing an ageing population and the proportion of the youth is decreasing steadily with the country's One Child Policy, albeit it was relaxed a few years ago. In this regard, labour intensive and export-oriented industries, which tap into India's abundant labour 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.

Countries hitherto importing goods from China over past many decades - mainly USA, are imposing trade barriers and this provides an opportunity for development of manufacturing industry in India. With trade war triggering a major turnaround in India-China relation, hopes are raised on China being the next lead foreign investor in India. Given the Chinese products becoming costlier after the tariff hike, investors in China will shift their productions bases in India and other countries.

There was a volte-face in Chinese attitudes towards India. Instead of prodding trade rivalry chorus, China extolled India's potential as an important destination for investment. "India has a wealth of experiences in utilizing international capital. There is no doubt it has become more attractive to foreign investors", according to Mr Zjao Gancheng, Director of Centre for Asia Pacific Studies at Shanghai Institute of International Studies.[6]

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, so where else can China sell anyway? The European countries (2-3% growth rate), USA etc. don't have the growth rate or size of market to satisfy China's appetite.

Midea one of the oldest and household names in China white goods industry has decided to move its operations to Pune. They thought if they move to Vietnam, in 4-5 years the market will be saturated and they have to move again. So the company has taken a tough decision that, even though it is more difficult setting up manufacturing base in India, it makes better business sense in the long run and they don't have to worry about market for the next 25-30 years.

.....The rewards in India have been so phenomenal for Chinese smart phone companies that they don't mind overshooting their marketing budgets and paying inflated commissions to distributors, says an Indian product manager at Oppo, Bengaluru. "India is the only strategic market left," he says. "And the Chinese are here to stay."

1.3 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 USUSD 11-12 billion with ~700 active companies in the market. Although, this is still relatively small as compared to what India has received from the US, the UK and Japan, it is a substantial progress.[7] China has already made a big investment in mobile telephone manufacturing in India. China brands now account for over 51 percent of the smart phones sales in India. Large penetration of Chinese top brands of smart phones, like Xiaomi, Oppo, One-plus, Gionee, Vivo, Huawei are posing challenges to Koreans and Japanese brands. **Start-ups, infrastructure and electronic manufacturing have become the key areas for Chinese investment.**

The Table below gives the biggest investments in 2017-18.

Year	Company	Sector	City, Province	Proposed Investments (US$ mn)	Description
2018	CETC (China Electronics Technology Group Corp.)	Renewable Energy	Sricity, Andhra Pradesh	50	200-MW Solar Photovoltaic Cell (PVC) manufacturing facility. Production likely to commence by December 2019.
2018	Longi Solar Technology	Renewable Energy	Sricity, Andhra Pradesh	309	1GW of monocrystalline silicon cell and modules, each. Production of modules to commence by August 2019. Cell factory will commence production by January 2020.
2017	SAIC Motors	Automotive	Halol, Gujarat	330	Acquired General Motors factory spread across 170 acres with a capacity to produce 80,000 units every year. SAIC is refurbishing the plant. Production to commence by end-2019.
2017	Tsingshan Holding Group	Steel Manufacturing	Kutch, Gujarat	1,000	Integrated steel plant, which will consist of hot-rolling and cold-rolling lines as well as smelting facilities. Production likely to commence by March 2019.
2017	Fosun Pharmaceutical	Pharmaceuticals	Hyderabad, Telangana	1,091.3	Completed stake purchase in Gland Pharma, Indian pure-play generic injectable pharmaceutical manufacturer.
2017	Midea Group	Consumer Durables	Pune, Maharashtra	130	Constructing a factory spread over 43 acres, with a manufacturing capacity of 500,000 refrigerators, 600,000 washing machines and one million water appliances products.
2017	Haier Group	Consumer Durables	Pune, Maharashtra Greater Noida, Uttar Pradesh	600	Expanded its factory in Pune to manufacture washing machines, ACs, TV panels and water heaters, and reduce dependence on imports to cater to fast-growing demand in India. It also bought land in Greater Noida for another factory in North India. The firm is eyeing a turnover of ~$1 billion from India by 2020.
2017	CNTC	Real Estate	Bengaluru, Karnataka	110	Construction a premium segment residential complex in Yeshwantpur area of Bengaluru city. This is the first real estate project by a Chinese developer in India.
2017	Xiaomi	Electronics	Noida, Uttar Pradesh	n.a.	Xiaomi started its third factory to manufacture power banks in partnership with Hi-pad Technology. Spread across 230,000 sq. ft, the facility will initially employ 500 staff and will produce seven power banks per minute during its operational hours. Xiaomi also operates two factories with Foxconn at Sricity, Andhra Pradesh.
2017	OPPO	Electronics	Greater Noida, Uttar Pradesh	350	OPPO bought 110 acres land in Greater Noida to set-up a new greenfield facility. Its existing assembly unit in Noida, established in 2016, reached full capacity faster-than-expected.

Source: Press search

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).

Since 2015 around USD 7 billion in Chinese funding has poured into the Indian tech sector. 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. Chinese tech companies have also over the past two years also launched ambitious tailor-made products for the Indian market. As of last year, of the 100 most popular Android apps used in India, 44 were Chinese, including five in the top ten, such as the now popular video-sharing platform Tiktok and UC Browser, said one recent report, describing it as **"a Chinese takeover of the Indian app ecosystem"**. Some issues and concerns have been raised on the rushed entry, size and lack of regulation of Chinese investment in the tech startup sector which is detailed in Chapter 5.

"I am not running a Chinese startup. It's a proper Indian company," says 33-year-old Wan Hong, co-founder of Krazybee, a consumer goods micro-financing platform targeted at students. "Not one of my 50 employees is Chinese." Wan speaks English with an Indian accent and has visited over 20 India cities, spending much of his time trying to understand what Indian college students want. The fintech startup enables students to pay for their phones and computers in instalments by tying up with ecommerce partners and offering loans at nominal interest. "India is a country where you need a local as a partner. I don't think I'd do a better job than my partner," Wan says, referring to his co-founder and CEO, Madhusudan E. The two worked together at Huawei. Within a year of its founding in 2015, Krazybee has crossed 100,000 customers and gives out over Rs 2 crore a month in loans. From four cities, it will soon scale up to 5-10 more cities. All this has been possible because Wan Hong spent five years at Huawei India before quitting to start up. "It is not easy for Chinese entrepreneurs to enter a new country like India, but it could be more rewarding in the long run," he says.

India's trade and investment strategy with China has been slow to grasp this trend. India has primarily had two areas of focus – opening up China's market, particularly for IT and pharma and bringing in Chinese investments in greenfield infrastructure projects in India and to manufacture in India. Although these 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. Given the experience of Japan, South Korea, China and even lately Vietnam, it was these seemingly primitive industries that led the industrialization boom by absorbing massive agricultural labour and quickly making a dent in the highly competitive global export market. In this regard, labour 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.

Therefore, India is looking at it from both the supply side and the demand side - the supply side being China which has the investment, the finance and the technology to invest, and the demand side being India which has an objective to grow its manufacturing sector.

The RGICS has taken this as their research hypothesis and its objective is to come up with a policy strategy that would help improve the manufacturing industry in India with Chinese investments as well as creation of job opportunities for Indians. RGICS has been talking to various stakeholders in both the countries and aims to facilitate a visit to China by the end of July 2019. The stakeholders from China will include business delegations, chambers of commerce and the major Chinese investors who would be interested in looking at India as an investment destination. Stakeholders from India would include the policy makers at the Centre and the State level, industrialists and Sectoral representatives, and most importantly the State Governments. RGICS believes that the State Governments play an important role as they are the ones who need to make the move in making this investment successful.

1.4 Output Expected from the Study

In order to upgrade or build MSME manufacturing centres in some Indian states, engage Chinese investment, unleash Indian entrepreneurship potential and create significant employment and jobs in India, a policy strategy and ecosystem needs to be put in place. This Study is to research existing policies, issues and what needs to be done to realize the potential, through primary and secondary research and consultations with the entire range of stakeholders and come up with a set of recommendations that can be implemented. Annexure 1 gives the complete list of stakeholders met during the course of the Study. The short listing of sectors and products is done iteratively based on desk research analysis, discussions and finally the outcome of sectoral consultations at State level, followed by sectoral consultations that will take place during the China study tours.

2 National Level and Overarching Policy and Strategy Issues

2.1 Investment with a global strategy

The China India Institute, a Washington DC based leading research consultancy, has researched and analyzed the growing corporate linkages between India and China[8], and how winning in each other's markets is also making them stronger and whetting their appetite for further global expansion. The key lessons that emerge from these analyses are: 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.

This is borne out during the RGICS study and discussions with Chinese and Indian stakeholders. There is a strong case to advocate a strategy that India and China should grow together, each doing what it can do best to capture global markets. There are around 125 Indian companies operating in mainland China in various sectors like information technology, manufacturing, textiles, food processing.

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.

2.2 US-China trade war can be an opportunity for India

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[9].

Professor at Indian Institute of Foreign Trade (IIFT) Rakesh Mohan Joshi said the US has broadly targeted intermediate components from China, particularly machinery and electronics, whereas China is targeting American automotive and agricultural products including Soybean. Strong opportunity is unfolding for India in apparel and readymade garments as after China, India is the only country in the world to match the scale of operations and integrate its supply chain for global customers," Joshi said. FIEO Director General Ajay Sahai said "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," Sahai said.

Central Board of Indirect Taxes and Customs has constituted a committee of officers to take forward the Centre's plan to promote exports. The committee will look at how access to imports that will be used to manufacture goods earmarked for exports can be expedited, and will also do away with any tax anomalies that may arise in the process.

2.3 MSME for maximum job creation

From the examples of industries mentioned above, we see that industries that seem to fare best are intermediate tier industries that are driven by local demand, such as consumer electronics, engineering equipment as well as automobile parts. This is largely because these industries' huge local demand combined with Indian government's protectionist tariffs as well as its industrial policies have made investing in local factories commercially viable. Although these 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. Given the experience of Japan, South Korea, China and lately Vietnam, it was these seemingly primitive industries that led the industrialization boom by absorbing massive agricultural labour and quickly making a dent in the highly competitive global export market.

In discussing the issue of manufacturing industries and job creation, the Gujarat Chinese Enterprise (GCEA) members said that among their member-enterprises, Maxwood

Industries (which manufactures PVC Edge Strip, Laminated Plywood, Adhesive Glue, etc.) and HIGHLY Electrical Appliances (which manufactures Compressors) have resulted in maximum job creation vis a vis investment made. Both are more labor intensive and also replace current Chinese imports with locally manufactured items.

A Chinese consultant based in Gurgaon who provides advisory services to Chinese interested to start business in India, explained that the first wave of Chinese investors came in 2015 after the new Government came in under PM Modi and the India-China leaders met. The second wave started 2018 and is on now. The initial Chinese investors have been big players like Xiaomi, Lenovo, Foxconn, Oppo, Vivo etc. Now the wave of interested investors also consists of medium and small business investors who would set up smaller/medium sized manufacturing units making less sophisticated products.

Despite all advantages of Indian market, language and lack of people-to-people contact has emerged as the single-largest obstacle for exchange of information between the two countries. 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. This point is made by every Chinese who is now familiar with India.

Mr Manoj Kewalramani[10] of the China Centre, Takshashila Policy Institute Bengaluru, was of the view that low-end manufacturing shift from China to India is not going to happen. Given the difficulty and complexity of doing manufacturing in India it is quite unlikely that Chinese will invest for manufacturing in India. If at all, JVs may be the way to do it so that the Indian partner can handle dealing with the complexities of the Indian manufacturing and social ecosystem.

Mr. Hazari suggested that new investments should focus on MSMEs. He believes that these investments made in small sectors would help manufacturers overcome challenges such as competition with the Chinese industries in the lower market, the negative impact of China dumping its products in the Indian market at low prices and low productivity issues. Many people from this sector believe it is possible for the small sectors to compete despite the existence of these problems.

The Government demand in the Railway, Telecom and Space Sector is huge. There should be a policy that Government will purchase only Indian company products or those products where a certain % of minimum value addition in manufacture takes place in India. Other countries have such a policy and we should too.

The "Actual User Condition" under the import policy should be removed.

2.4 Aligning Interest of Industrialists and Labour

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. The textiles industry enterprises on the other hand are at a critical juncture and are eager to take up this opportunity and believe that the State Governments are the ones who need to take the initiative for this to work. Many policy advisers are concerned about the fact that State Governments are short sighted and are not able to make long term goals in this regard.

In Deki Electronics, Mr. Vinod Sharma[11] has pioneered and implemented several initiatives to bring in worker participation and stake (including profit sharing upto manager level), which is why Deki Electronics has survived and flourished while many other industries the same business failed. On discussion, he felt that even for cluster development, creative ideas for worker participation and stake can be tried. Aligning worker and industry development is very important for success and sustainability.

Mr. RC Bhargava, the doyen of automobile industry in India who set up the Maruti-Suzuki venture, said we need to look at and learn from industrialization and industrialists in Japan. The difference between remuneration of the owner and employee in Japanese industry is a maximum of eight times. The Japanese industrialist says he wants his employee to be able to ultimately afford and buy his industry products.

Business models have changed with models like "uberization". The whole onus of social security should not be put on the private entrepreneur especially in these times of fast changing models and market preference. In the manufacturing cluster or park, the State also should have a share in workers social security so that workers have security in a world of fast changes.

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.

2.5 Different Models for Manufacturing Cluster Promotion

[12]Clusters are often organically formed from existing industries as determined by historical legacy (Miller and Cote 1985). The role of government is normally limited at the initial stage. Yet governments, and in particular local governments, can help facilitate the growth of existing clusters.

Governments or business communities often prefer to build industrial parks in a limited geographic area, in which adequate infrastructure and an enabling business environment can be provided. They aim to attract foreign or domestic direct investment in the industrial parks in order to promote employment and facilitate technology transfer. Whereas clusters and industrial parks share the advantages of economic agglomeration, they differ fundamentally in terms of origin, entry barriers, composition of enterprises, and their entrepreneurship impacts on the local economy.

From discussion with industry representatives, research from secondary sources and cluster visits, an assessment of different types of manufacturing clusters is given in Annexure 2: Examples of different Industrial Cluster/Parks in India. The different types covered are:

- Industrial Parks developed by the Government,
- promoted public-private partnership between an Indian industry association and the Government
- Industrial Park promoted by a large private investor with support from the local Government,
- promoted by foreign investment to attract manufacturers from the investing country
- older manufacturing Cluster promoted by local community entrepreneurship.

Industry representatives said that for Cluster or Industry promotion, the key is to plan and work in a manner that aligns all stakeholders' interests including the workers. For Cluster Development in India, it is better to go for more small clusters rather than few mega clusters. Worker related issues in mega clusters will be more difficult to negotiate.

Industrial Cluster development by inviting a foreign agency is done with the purpose of attracting country-specific manufacturers of different goods from the investing country in a cluster. Two such initiatives are described below:

”A recent model being tried out with foreign investment and development is in Gujarat. The China Association of Small and Medium Enterprises (CASME) is a Chinese Government promoted association. It has established a SPV called the **CASME Industrial Park Development (India) Pvt. Limited.** The MoU with Government of Gujarat was signed in May 2015 during the visit of the then Chief Minister to China, for an investment of Rs. 10,000 crore for setting up an Industrial Park. This industrial park plans to focus on four parts: production and processing, commodity display and trade, storage and logistics, as well as comprehensive supporting service. Li Zibin, president announced Chinese “small and medium enterprises are encouraged to actively explore the Indian market.”

Construction of this park was to finish in three years. To speed up construction of this park, the Gujarat government mapped a series of preferential policies on tax and revenue, foreign investment and supporting service. According their CFO based in Ahmedabad, they were to buy land of 5X5 Km. However, things were moving slowly and as of March 2019, only 1X1 Km has been purchased, to start first phase of work. They used services of a local consultant to buy the land, there is an ongoing protest by farmers which delayed land acquisition. Discussion with the Industrial Investment dept (IndexTb) at Gandhinagar about the MoU with CASME which was not able to be implemented properly, it was agreed that the process of MoU development has to be improved with better groundwork on both sides.

In our discussion with the Government of Rajasthan representative in Feb-March 2019, they referred to the **Neemrana Cluster (Japanese Industrial Park)** as a successfully working model. The intriguing industrial experiment at Neemrana — a collaboration between JETRO (Japan External Trade Organisation) and the government of Rajasthan — has created about 10,000 factory jobs. On more than 1,100 acres of land dedicated exclusively to Japan's corporations, global titans such as Toyota Motor Corp., Daikin Industries Ltd and Hitachi Ltd have clustered together to protect themselves from the vagaries of India's chaotic business landscape.

Older traditional clusters have developed organically around a specific sector or set of products, with local community private entrepreneurship and very little role of the Government. India has many such cluster-towns: Tiruppur Hosiery Cluster in Tamil Nadu, Diamond Cutting& Polishing Cluster in Surat, Knitwear Cluster in Ludhiana, Brasswork Cluster in Moradabad, Ceramic Tile Cluster in Morbi, etc; The case of an old cluster **(Morbi Ceramic Tile Cluster) and its later adoption of Chinese technology** is an interesting case, detailed in the box below:

Morbi Ceramic Tile manufacturing cluster adopts Chinese Technology

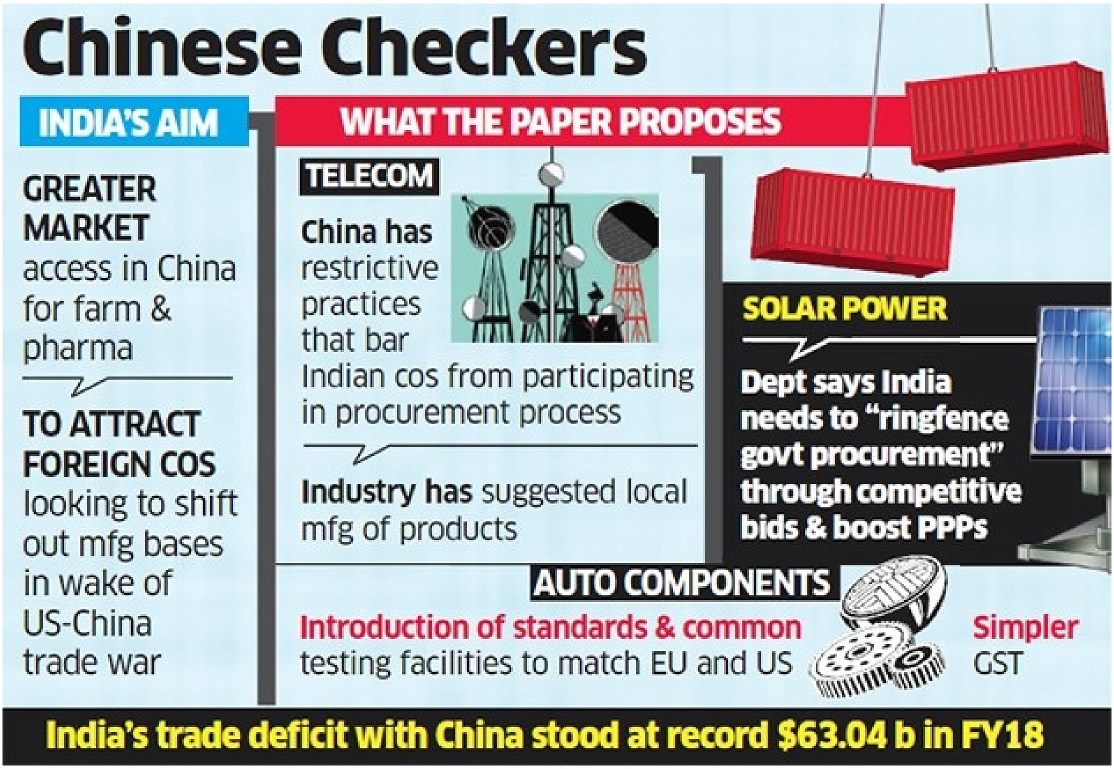
This is an example of an old MSME cluster town. During our visit, the cluster was currently facing shortage of orders due to the economic slowdown caused by demonetisation and GST. In 2009-2010 the cluster started importing Chinese machines to make vitrified tiles. Mr. Vipul Patel, owner of Caramia Granito LLP Tile Factory said that when vitrified tiles came into the market a decade ago, for 8-9 years they used to import these tiles of big size. He got an invite by China to a ceramic exhibition and also got exposed to the Chinese manufacturers at a Vibrant Gujarat event at Gandhinagar. Then they decided to invest in and import the machinery to manufacture the tiles in Morbi. Of late, Morbi Tiles are cheaper, so some Chinese are buying from here to sell in Indonesia.

Keda Industry of China is the 2nd largest equipment manufacturer for the ceramic tile industry. They set up a workshop in Morbi in 2017. Most Ceramic cluster factories have bought Keda Chinese Machines for making vitrified tiles. The Workshop provides after sales service and sale of spares and consumables to the local industry.

Out of 1000 factories in this cluster, 200 are Keda clients. The main Keda Company in China has 2 subsidiaries: Keda and HLT. HLT has 300 clients in this cluster. Apart from this, there are 20 Chinese companies operating and competing in this cluster to provide after sales service. They don't have a factory-workshop and office campus like Keda, but operate out of a hired house with regular visits by their Chinese staff.

2.6 Need Detailed Sectoral Strategies with Implementation Steps

The commerce department has recently prepared a strategy paper[13], 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. The strategy paper, prepared by the department, was submitted to commerce and industry minister Suresh Prabhu.



Mr. Sunil Rallan (3CS member and MD, Chennai FTZ Pvt. Ltd) believes that our 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.

Mr. Janakar, Member, Governing Council Indian Rubber Institute (IRI), Chennai said the national and respective State Government have to create an investment conducive atmosphere for China or any other Country: single window clearance, land for residential colony and school, ensured supply of water, electricity and land.

Mr. Vinod Sharma's experience is that "manufacturing sector in India is very difficult and problematic. Most people having factories would not advise their children to get into this line of business. In today's age, the life of manufactured products has become short, as also the relevance of skills and machines for making a type of product. Earlier the same product would continue in the markets of decades, it required the same machine and worker skill sets. This is the reality of the changed manufacturing scenario of today".

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. Whereas in China the support for new enterprises is swift and this enables fast implementation and timely, profitable results. Another edge China has over India is that many businesses there 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.

2.7 Processes and Mechanisms for Facilitation of Investments

Major Neil Castelino, CII-Bengaluru that CII Delhi has a 'Look East' Desk which includes China. CII also has an office in China. CII has organized Indian delegations to China comprising industry and government people, depending on the theme. They also hosted Chinese delegation from Shenzen to India for IT sector visit to Infosys and Mindtree. The Federation of Indian Chambers of Commerce and Industry, has an Executive Director (Mr. AtulDalakoti) based in China, an Indian settled in China since over 30 years.

Government of India has established a dedicated body — Invest India to facilitate Chinese investments in India. Invest India is the national investment promotion and facilitation department established by the Ministry of Commerce & Industry, Government of India. A five-membered dedicated team has facilitated over 110 Chinese firms in the last three years and has investment commitments worth USD 25 billion. The team can help Chinese investors understand the government policies, benefit schemes and regulations, identify business opportunities and local partners, and help secure land for setting up manufacturing facilities. Chinese investors can avail the services of Invest India without any cost.

On the other hand, industrialist and Electronic Industry leader and advisor Mr. Vinod Sharma said there needs to be consistency in the Government announcements inviting investors, and then when they arrive, the reality is completely different. They have to deal with a multiplicity of agencies, different departments of the Government, and political announcements that are contradictory about the treatment of foreign investments and investors.

A senior bureaucrat in the GoI External Affairs Ministry who has been posted in SE Asian countries said that in his experience, the Indian delegations that go to other countries including China are not well prepared or planned with all prior groundwork done. A big delegation with CM/Minister and bureaucrats just coming and making PPTs is of no use. In his opinion, the bureaucrats do not get or know how to plan the details. They have big consultants like E&Y, KPMG etc. who also do not know how to guide them properly on this, except making good PPTs. The Telangana Government did a good job, they did an initial small (2-3 person) preparatory visit followed by a larger detailed business delegation that could be properly focused. In Invest India, there is a special desk for Korea and Japan, same can be tried for China.

Several other Chinese and Indian experts also stated that it is important to conduct investment-seeking delegations with a proper focus and process which can bring results. The Indian delegation must do its preparation and state clearly what it has to offer to Chinese investors in terms of location (State), industry (products), policy and implementation support at State and Central Government levels. They must connect and discuss with counterpart Chinese industry and sectoral associations, visit Industry clusters and enterprises in China which match with the products/sectors that the Indian delegation is interested in. The visits and discussions must take place at this level in order to come out with a matching of intent and interest between Indian and Chinese counterparts.

In China every Industry has an Industry Association, such as the Home Appliance Industry Association. When we have policy and investment consultations between the Countries, it is important to include the Industry Association in the Consultation.

2.8 State Government Initiatives and Policies

RGICS had discussions with the industry and investment department representatives of State governments of Madhya Pradesh, Rajasthan and Gujarat.

Government of Madhya Pradesh: A delegation led by the Hon'ble CM had been to China in June 2016. They met prominent companies from China to make an understanding with the companies and convince them to invest in Madhya Pradesh. The visit was to elicit investment proposals, market proposed country specific Chinese Industrial Township in Pithampur (near Indore), promote Vikram Udyogpuri near Ujjain, Plastic Park Tamot near Bhopal, Sitapur Industrial Area near Gwalior and upcoming major infrastructure projects. Business Seminars for Industrial promotion were followed by one-to-one meetings in Beijing & Guangzhou with various investors of China to enhance investment prospects in Madhya Pradesh[14]. We were informed by GoMP representative that "GoMP has hosted atleast10 Chinese delegations in MP in the last few years. Each Chinese delegation has had not less than 20 persons comprising Government and business people. Language is a big problem. There is an interpreter but we never know what gets translated to them, and there is a cultural barrier. Nobody in MP understands Chinese and that's the first hindrance. In MP, 4 Chinese companies have come in in the last 3 years: in the mobile phone and food processing sectors at Gwalior and Indore".

The details of these were not available online. However there was an earlier investment in 2008 when LiuGong India, a China-based infrastructure heavy equipment maker, had set up its plant at Pithampura with a capacity to manufacture 3,000 units of wheel loaders and motor graders annually. In 2009 it rolled out the first MADE IN INDIA wheel loader. A recent added investment is about Rs 3 billion in its existing plant (https://www.business-standard.com/ October 2018). Hydraulic excavators and compactors will be sourced from India for exports to the Middle East, Africa and SAARC countries.

During his tenure as CM of MP, Shri Shivraj Chouhan had been to several countries seeking investment. The Indian embassy in the visiting country helps organize the visits and meetings. During our discussion with GoMP representative in Feb 2019, it was discussed that rather than going only through the embassy it is important to simultaneously engage directly with the local clusters, so that follow up work can be done. The potential sectors in MP are food processing and garment manufacture.

In our discussion with the **Government of Rajasthan** representative, we were informed that the State Government is getting an ADB loan for Industry development on the Delhi-Mumbai Corridor that runs through Rajasthan. What the state can and will do is reduce/ease the cost and process of establishing business and bringing down transaction cost, rather than give subsidies. The state Government brought in a new MSME Ordinance (Facilitation of Establishment and Operation) Ordinance, 2019 in March 2019.With this, the MSMEs will have free access to doing business by just filling up a self-declaration form and would not have to seek any approval or inspection of any department for the next three years. This would save them from hardships of legal or administrative scrutiny of different government departments.

On discussing Chinese investment, he said that it is possible to have a Chinese cluster. There is a Japanese Cluster in Neemrana. JICA was involved in this. This is suitable because they can develop their own social infrastructure which will make it comfortable for them in an alien land. Rajasthan Government was keen about the possibility of Chinese investment in manufacturing sector and job creation opportunities. The Govt. of Rajasthan could host a multi-stakeholder consultation in Jaipur with relevant Indian and Chinese industry representatives, in order to explore the possible opportunities and interest.

In the discussions with **Government of Gujarat** – IndexTb, we were informed that in 2014-15 they opened an investor facilitation portal (IFP.Guj.Gov.in). It gives all information including GIS based land bank availability and all details are available in Gujarat Industrial Policy (2015). Labor intensive industry gets more benefit and the labour rules call for 85% local labour hire. It covers facilitation work of 16 Departments with 100 applications and permissions. Initially they had covered only 5-6 Depts. All this can be done online without visiting the Department. There are 2 kinds of Industrial Parks: GIDC and Private.

The China Association of Small and Medium Enterprises (CASME) a Chinese Government promoted association, set up the CASME Industrial Park Development

(India) Pvt. Limited. The MoU with Government of Gujarat was signed in May 2015 during the visit of then HCM Anandiben Patel, related to an investment of Rs. 10,000 crore for setting up an Industrial Park. Discussing with a state Government representative about the MoU with CASME which was not able to be implemented properly, it was agreed that the process of MoU development has to be improved with better groundwork on both sides. Now it is not called MoU but Investment Intention. Several MoUs have been signed: Guangdong and Gujarat, TBEA, CASME, China Development Bank.

The **Government of Karnataka** has been working on developing specific industry clusters in 9 districts of the state. The name of this effort is "Compete with China" program. Two of the nine clusters, Textiles & Toys identified for development have been formally launched

Package	District	Focus Industry
Package I	Ballari	Textile & allied industry
Bidar		Agricultural implements
Tumakuru		Sports & fitness goods
Package II	Chikkaballapur	Mobile phone components
Hassan		Tiles, sanitary wares & bathroom fittings
Mysuru		Printed and Integrated circuit boards
Package III	Chitradurga	LED lights
Koppal		Toys and mechanized toys
Kalaburgi		Solar Panels, Inverters, Capacitors, Laminator

in February 2019. This scheme envisages to manufacture and assemble globally competitive goods that will be marketed domestically besides exploring the export markets. The package of incentives announced by the State Government is attached in Annexure 3.

The Indian corporate Aequs group (https://www.aequs.com/) has been able to get China's leading toy manufacturer GFT (https://www.gftgrouphk.com) to form a JV with Aequs. The total investment of this JV will be Rs 15,000 Crores and they will create 25,000 jobs in Karnataka at Belgaum and Koppal industrial parks. Aequs will be taking care of the factory construction and all local issues for Chinese partners in Karnataka, and the Chinese partner will bring in the technology and know-how of the manufacturing process.

The **Uttar Pradesh Government** has been promoting Greater Noida as an IT destination and focusing now on developing Greater Noida into a Centre of Excellence in software, hardware, engineering and technology by providing proper infrastructure and facilities in specially dedicated IT parks. The Greater Noida Industrial Development Authority (GNIDA) has implemented special IT-ITES policy which has resulted into operations of a lot of IT companies in the region. Uttar Pradesh's Electronics Systems Design and Manufacturing (ESDM) policy 2017 is poised at establishing a conducive business environment for the electronics manufacturing industry and its allied business partners within the state. This will in turn provide a special thrust for MSME businesses in the range from Rs. 1-200 crore, and establish electronic manufacturing cluster in the state.

In 2017 World Trade Center (WTC) Noida signed a memorandum of cooperation (MoC) with the China Association of Small and Medium Enterprises (CASME). The MoC aims towards creating various trade and investment opportunities for Chinese enterprises willing to explore the Indian market[15]. During early 2018, the Uttar Pradesh government signed a MoU with WTC, Noida, to develop a 'tech zone' as a nucleus of the Mobile Open Exchange Zone (MOX).

Advantages of MoX for Industries:

- Capital subsidy of 2.5% from Central Government and 15% from the state Government.
- Production subsidy of 10 % from the Central Government.
- Interest subsidy of 5%, per annum for 7 years from the state government. Incentives for filling patents up to 100% of actual filing costs.
- State GST benefits of 100% SGST reimbursement for 10 years
- Reimbursement for training up to 5% of fixed capital investment and 50% of cost incurred on training.

2.9 Government of India efforts for job-creating investments and better trade deals

Unlike how China approached the West, India opened a market worth tens of billions of dollars to Chinese technology and power companies, while getting little in return, either in the way of Chinese investments in India or in terms of securing market access for Indian companies in China. 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.

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[16]. 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.**

Professor Amita Batra, School of International Studies, Jawaharlal Nehru University (JNU), Delhi opines that it is time to re-visit India's trade policy: we need to recognize the importance of aligning with evolving regional trade formations and utilising preferential trade mechanisms[17]. Other than unilateral opening up, most of the trade liberalisation in the past two decades has been at the regional level. As of 2017, about half of the world trade has occurred under some or the other PTA.

India's trade strategy to work through multi lateralism may once have been an option, but today when the WTO is struggling to remain relevant, mega regional PTAs have become dominant trade vehicles. With agreement on major trade disciplines across their large membership, mega regionals play a facilitating role in making possible efficient multiple border crossings for goods that are fundamental to GVCs (Global Value Chains). And, the RCEP is the only mega regional trade agreement in Asia-Pacific of which both India and China are members.

The demand from the Asian giant is putting pressure on the policymakers as they are looking to create the world's largest free-trade agreement under the Regional Comprehensive Economic Partnership (RCEP). India has offered to open up 74% of its market to Chinese goods in phases but China is not satisfied with the proposal. China has asked India to allow duty-free import of 85% of its products into the country. During the countries' bilateral discussions, Indian officials were told that China was willing to give duty-free access to 92% of Indian exports, provided the bar was raised for Chinese products.

Retd. Ambassador Bambawale says it is essential to work with the Chinese government to ensure greater market access in China for Indian pharmaceutical products, particularly our cheap formulations. He[18] recommends that India should also pro-actively engage and work with China in the Cooperation on International Solar Alliance, Shanghai Cooperation Organisation, trans-border rivers and railway station technology. He argues against engagement in the Belt and Road Initiative because it is not transparent (pushing unviable projects, causing indebtedness) unlike a multilateral. He pitched for the Asia Infrastructure Investment Bank where India is the biggest financier.

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.

3 Trust, Security, IPR, Visas and Sectoral Regulations

3.1 Mistrust of China/Chinese by the Indian Government and people

Mr. Zheng Bin, MD of ICBC Mumbai Branch said Bank of China wants to open a branch in India since past four years but no licence has been given, whereas a Japanese bank got it in six months. ICBC already has a branch in Mumbai and has applied but not got clearance to open a second branch. The MEA, the MoF and the RBI are all involved in decision making. Japanese gets a visa extension easily, the Chinese face a lot of hassles. India must at least have a level playing field for all foreign countries.

> Bank of China had applied for security clearance in July 2016. Initially, the home ministry had supported the move, merely stating that it had no objections to Bank of China's proposal as long as it cleared regulatory requirements. Later, it did a volte-face and opposed clearance last year.
>
> At that time, there were concerns over Bank of China's ownership. Although the listing documents showed the bank to be partly owned by Central Hujin Investment, Hong Kong Exchanges Clearances and China Securities Finance, there were apprehensions that the People's Liberation Army had an indirect stake or control over the bank. There have also been allegations in the past that the bank was involved in funding Hamas, a terror group which targets Israel.

However, the Bank of China vigorously denied these allegations and asserted that the bank "strictly followed the UN's anti-money laundering and anti-terrorist financing requirements and regulations".

China was believed to be miffed at the turn of events, especially given the fact that it had permitted Indian banks to open seven branches in China since 2006. The State Bank of India was the first to start operations in China where it has two branches. Bank of India, Bank of Baroda, Canara Bank, ICICI Bank and Axis Bank have one branch each. India had USD 89.6 billion in trade relations in 2017-18 with China. This is expected to go up to USD 100 billion by 2020." China is important for our imports ... it has signed pacts to set up a mega-investment park in Gujarat and Maharashtra. Talks are afoot for at least two more parks. Obviously, they will ask for a bank branch to support these initiatives," said finance ministry officials.

Source: https://www.telegraphindia.com/business/bank-of-china-comes-to-india/

A senior MEA bureaucrat in the Government of India said India does need to be aware of China deep state and PLA connection. That is why India does not open Chinese investment in certain sectors and categories e.g. for switchback equipment.

CII-Bengaluru representative said that Chinese companies/investors in India are looked at with suspicion. The Intelligence Bureau (IB) asks us questions about them. Even the Indian IT sector companies were hesitating in hosting 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.

Prof. Joe Thomas said that in case of any perceived "security risk" from Chinese investment and companies, the Indian Government should do a genuine assessment and state its policy and steps to implement them in a clear manner, so that due to 10% risk, 90% potential does not suffer. If our position is not stated clearly, work down the line will suffer due to vague threats and rumours. Where security risk is detected, Government should take demonstrable action to deter more such moves and for confidence building within India.

Mr. Tang Guocai, Consul-General of China in Mumbai said "Maybe because India and China are geographically close and share a boundary, so China is seen as an adversary whereas a country which is far away is not viewed as such. When Doklam happened, all work came to a standstill. There is a basic safety-net missing for investment from China. In order that the Chinese investment in India is not at risk, they invest via Singapore."

The Chinese representatives in India expressed various issues that made them insecure about investing and staying in India. 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) affects and discourages investment in India. When the Pakistan-India terror issues come up in the news, Chinese people sometimes feel whether it is safe to invest in India in case an India-Pakistan war breaks out. Most people in China know very little about India and there is a lot of negative reportage and news about India. This is something that needs to be worked upon.

Manoj Kewalramani's writes in his weekly bulletin "Eye on China" in Feb 2019 about his Impressions from China - Based on My Recent Visit: "there's very little that's organic about the India-China relationship....what's, therefore, needed is for engagement to be channelised through lower levels of government and society, such as collaboration among businesses, partnerships in technology development, sharing of experiences in urban planning and management and so on. 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.

3.2 Cultural differences of Indian and Chinese people

Prof. Joe Thomas said that we have organic relationships with other countries – e.g. India with Middle East, USA, even Europe due to language (English), religion, diaspora, food, culture. Similarly for Chinese, the natural inclination is towards Japan, Korea, Malaysia, Thailand, even USA due to Chinese diaspora. That makes it difficult for China to invest in India an "alien" land and fit in with the culture.

Mr. Tang Guocai said: "for sustainable relations, there is a need to develop business relations as well as cultural relations."

The GCEA representatives said most of the Chinese in Gujarat live in Ahmedabad and Baroda, and the rest all over Gujarat. Non-Veg, sea food, beef etc., is available and purchased from the Muslim markets. The problem is that they cannot drink freely due to prohibition in the State. Most (99%) Chinese have come alone without their families. This situation happens only vis-à-vis India and not for other countries.

Mr Hazari went on to add that there are some Chinese manufacturers in Sriperumbudur. Chinese keep within themselves, they don't come out in the open. There are Japanese and Koreans also in Tamil Nadu. You will see them in the city markets, restaurants and other public areas, but you will never see the Chinese mixing around like this.

3.3 Concerns about IPR, security and weak Government regulation

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 greenfield 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.

While the focus of India's current trade strategy with China is to bridge the gap, chiefly by increasing exports of agricultural commodities hit by the China-US trade war, Beijing's priorities have shifted elsewhere[19]. Since 2015, around USD 7 billion in Chinese funding has poured into the Indian tech sector. (It is reckoned Chinese tech companies and funds have taken big bets and invested about USD 3 billion in India in 2018 alone).

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. Where is the money going? It's a pretty diverse spread. 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. In 2015, Alibaba pumped in close to USD 700 million in Paytm's parent company, giving it a 40% stake. Alibaba also has investments in Snapdeal and Zomato, while Tencent has invested in Ola, Flipkart and Practo. Chinese companies like Bytedance, which is behind Tiktok (and the widely popular Chinese original, Douyin), is among many that 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.

Is this flood of Chinese money an unalloyed good? To be sure, it has benefits. The infusion of capital has allowed hundreds of Indian 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? Indeed, this isn't – and shouldn't become – a China-specific problem and the question of security applies to all companies, and not just overseas ones. It is an Indian problem of how to ensure transparent regulation. But in the rush for financing, the question of regulation has been all but ignored.

Regulation – and deciding what sectors are sensitive – isn't easy in an industry that's changing rapidly. 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? What guarantees do users have that their data isn't finding its way to Hangzhou? Or to take that argument one step farther considering the often blurry private-state boundaries in China: would we be okay with the Chinese state being the biggest shareholder in Paytm?

Particularly when it comes to data security, there are few safeguards. Consider the case of the Alibaba owned UC Browser, which has a 50% market share in India and is used by more than 300 million people, according to reports. The company was recently forced to issue a clarification after government reports suggested that Indian users' data was not entirely being stored in Indian servers.

Indeed, Chinese companies – and western ones – haven't been shy about describing data as “the new oil”. And for them, the Indian market is only second to China's in terms of its offerings. India also happens to be a market with among the poorest regulations and protections when it comes to data security.

3.4 Visa Issues

“India is China's fastest growing demand base for visas,” said Mr. Tang Guocai. “There has been a steady growth of demand for China Visas at Mumbai Consulate which covers Western States and Karnataka. For the first time it has crossed 100,000”. They want to increase to one more visa office to meet this growing demand. A direct flight from Mumbai to Guangdong and Shanghai is needed. On India's trade deficit with China, he said that deficit is a sign of a strong growing Indian economy. India should look at developing economic relationship with China for its own long term merit.

There is an increase issuance of visas and the demand for Indians wanting to travel to China is growing. The previous chapters show that Chinese coming to India for trade and investment has also been growing.

On the other hand, almost all Chinese representatives in different parts of India that we spoke to expressed concern about the issue of visas by the Indian Government to the Chinese business officials. The various issues raised by them are:

- The Indian government's visa policies vis-a-vis the Chinese fluctuate from time to time. For business visa also, the policy fluctuates, and there are many restrictions.

- Since March 2019, India had further expanded the e-visa facility for Chinese business persons. They 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. After the e-visa policy, getting the business visa has become a little simpler.

- But the India stay period provided to the Chinese is very limited. 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. Most of the time, the Indian embassy and consulates provide the business visa to the Chinese for 60 days only. After 60 days, the business visa holder has to go back to China to renew the visa. The business visa cannot be renewed from here.

- It is very difficult for Chinese professionals to get employment visa in India. Reporting to the FRRO (Foreigner Regional Registration Offices) is not an issue, but the process is very long.

- Only one Chinese representative who was based in Ahmedabad said obtaining visa was not an issue, and renewal with FRRO is also not a problem. This may be due the fact that the Prime Minister Mr. Modi hails from Gujarat and has actively pursued Chinese investment both as CM of Gujarat and then as the PM.

- The time taken for providing employment visa can be three months, or sometimes more.

- The 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.

It was suggested that actually only the Chinese who have lived in India for many years will seek the Indian visa for a long time. This is because they have adjusted to living in India, and also have an understanding of the Indian business environment. If a Chinese has stayed in India for five years and wants to stay on more, it means that the Chinese is comfortable here. Such Chinese can be very good brand ambassadors for India. With their accumulated experience in India and their understanding of the local market, they will encourage their countrymen to invest in India. At the same time, such Chinese also understand the Chinese mind. They can correctly address the fears and concerns of the Chinese who are looking at the Indian market. The Indian government should realize their value and encourage such Chinese to stay here for longer time. Maybe India can consider adopting a Green Card policy for foreigners, just like China did in recent years.

A senior MEA bureaucrat in GoI informed that there is a new category of Visa called "Investor Visa" recently introduced for those investing above a certain value. There is also a detailed Visa Manual of the Government and this should be applied, instead of ad hoc processes and decisions.

3.5 Chinese Enterprise Associations in India

With the growth of Chinese enterprises, investors and people working, living and visiting India, in several states they have formed Associations to:

- understand and share experiences on doing business, travelling and living in India and resolve problems,
- represent matters collectively with policy makers
- educate their members
- facilitate Chinese investment
- some of them are focused on a State/Region.

The Associations we came across are:

Gujarat Chinese Enterprise Association (GCEA),

Mumbai Chinese Enterprise Association (MCEA)

Bangalore Chinese Chamber of Commerce

Chindia Chamber of Commerce and Industry (CCCI), Gurgaon

India China Chamber of Commerce & Industry (ICCCI).

Apart from these there are some autonomous initiatives like the China India Forum and the India China Economic and Cultural Council (ICEC).

A few private Chinese business facilitation and consulting enterprises have also been set up by the Chinese in India such as ACN Global in Bengaluru, Draphant Group Gurugram and Topline Consulting Group Gurugram.

The services and work of the above is detailed in Annexure 4.

4 Industry-wise Issues – Sectors, States, Investments, Policies

When we had started the Study and did the initial desk research, analysis and first round of consultations with experts and industry/policy people, we had short listed 5 Sectors to take forward for detailed study. In Working Paper 1 we detailed the tools and criteria applied, based both on numerical trade data analysis as well as discussion with trade experts; to arrive at a shortlist of sectors most feasible for manufacturing in India. Going forward we validated the shortlist and refined the focus study list as below:

1) electronics and electrical appliances,

2) machinery and machine tools,

3) textile and garment industry,

4) rubber industry,

5) plastics (including plastic waste recycling).

After speaking to some key stakeholders in these sectors at the central and state level, sectoral and policy levels, along with secondary research, the findings are summarised below.

4.1 Electronics and electrical appliances

Electronics is not anymore a Sector by itself, it cuts across many sectors said Mr. Vinod Sharma[20]. He said the following products/categories in Electronic Sector have potential for manufacture in India:

- Mobile phones, communication and broadband equipment
- Consumer Electronics (Set top boxes, Refrigerators, Washing Machines)
- Medical Devices (including earphones)
- Electric bikes and other vehicles
- Defense electronics
- E-waste (factory can be near the port, where repair is done and shipped out for sale. Should have proper environmental and safety policies in place).

Mobile phone Industry: India's emerging mobile phone industry by 2017 bypassed Vietnam to be the world's second-largest mobile phone producer by volume, occupying 11 percent global production[21]. China has already made a big investment in mobile telephone manufacturing in India. China brands now account for over 51 percent of the smart phones sales in India. Large penetration of Chinese top brands of smartphones, like Xiaomi, Oppo, One-plus, Gionee, Vivo, Huawei are posing challenges to Korean and Japanese brands.

When India raised customs duties on mobile phones and their components in April 2018, major Chinese companies began considering relocating the entire mobile phone ecosystem to India by encouraging their affiliated suppliers to follow in their investment footprints

China-based smartphone maker Yuho Mobiles already has Semi Knocked Down unit in Gurugram where it has manpower of over 500 and they plan more investment. They will set up a handset manufacturing facility in India with an investment of over Rs 100 crore. Yuho Mobiles Director-Sales Keshav Arora said, "We are looking forward to expand manufacturing and assembling unit in India. We have shortlisted two places– Gurugram and Tirupati to set up a new mobile manufacturing unit." We want to start production from the new manufacturing facility by December 2019".

there. With vertical supply chains and horizontal industrial clusters burgeoning in India, a robust mobile phone ecosystem is in the making and will lower local production costs dramatically. The biggest manufacturing sector Investments initiated by Chinese Firms in India in the last 12 months (2017-18) includes Xiaomi and OPPO at NOIDA for power bank and mobile phone assembly respectively.

Currently, Uttar Pradesh is at the forefront of mobile production in India (with 13 out of 38 plants of the country in the state). To keep up the pace of the demand, by 2020 local production capacity is expected to increase by more than twice. With an intention to give a boost to the booming mobile industry in India, Mobile Open Exchange Cluster (MOX) has been set up in Noida, Greater Noida and Yamuna Expressway region. Vivo mobile has already established their facility in the WTC Noida complex, employing nearly 13,000 people directly and manifold this number in indirectly in the state.

During our discussions Mr. Vinod Sharma said that the Phased Manufacturing Program (PMP) of the Dept. of Electronics set up at NOIDA where most of these manufacturing/ assembling units are located, is a good start though some problem are beginning to crop up. These issues will have to be examined and resolved through policy and regulatory measures in a manner that such incidents are obviated.

HiPad Technologies India Pvt. Ltd.

More than a thousand workers of a phone manufacturing unit in Noida Sector 63 gathered outside the plant on Thursday morning to protest against the company asking 200 employees to go on 'leave'. The agitation turned violent after protesters hurled stones at the building, damaging its windows. The incident took place outside the manufacturing unit of Hipad Technology India Private Limited, a Chinese phone company, making phones for Chinese companies Oppo and Xiaomi. Hipad was established in August 2016 and since then has been hiring workers through three different contracting companies. Like most of these manufacturing units that have been set up in India since the 2015 drive, the nature of hiring is purely contractual with a clause that the workers can be terminated at any point of their tenure without any prior notice

Police said nearly 200 workers were denied access to the plant and were asked by the management 'to go on leave for 15 days'. The workers construed that they were being laid off and resorted to violence. The firm officials, including a few Chinese nationals, were trapped inside during the stone pelting after which police were informed about the incident.

Senior police officers, including the superintendent of police (city) and circle officer, visited the site along with officials of the labour department. "We have spoken to the workers and the company management. It seems that they have contracts with three vendors (contractors). The company had asked them to reduce their workers due to shortage of raw material. However, the vendors didn't do so. Today, they put up a list of 200 employees asking them to go on leave, which the workers mistook as firing," Harish Chandra Singh, assistant labour commissioner (ALC), said. He said that it was a case of miscommunication. "The management should have communicated to the workers instead of just talking to the vendors. They should have taken a list of workers from the vendors and communicated to them whatever the issue was," the ALC said.

The Labour Department officials who reached the unit in the afternoon said it appeared to be a case of "miscommunication" on the company's part. "Due to shortage of raw material, the company had asked the vendors to tell these people not to come for work from Monday. But they continued to come to office and the management today barred them from punching in (biometric entry). "The vendor had possibly not informed the workers that is why they kept coming to work which apparently led to this misunderstanding. The office asked them to leave the premises and the workers said they were not informed about the decision and were being sacked that is why they resorted to violence," Assistant Labour Commissioner Harish Chandra Singh told PTI.

Source: https://www.hindustantimes.com/noida/200-workers-pelt-stones-at-mobile-phone-factory-in-noida (Nov2018)

4.2 Domestic Appliances

India has a huge potential market for the Home Appliances Industry just like China. In China, Automobile and Home Appliances were major players for manufacturing growth. India is a manufacturing Hub for Automobile, but now focus should be on the Home Appliances Industry also. This is the view of Mr. Yin Shah, CEO of Highly Electrical Appliances India private ltd. Three major Chinese global brand companies have set up and/or expanded manufacturing base in India during 2017-18.

Highly India commissioned India's largest air-conditioning compressor plant, with a capacity of 2 million units per year, with an investment of USD 72 million (Rs. 450 crore) at Village Matoda near Ahmedabad. The Plant set up in 2013 is a small one by Chinese standards. Though the focus is on India market, they also export to the Middle East from

here. The move was part of the Chinese major's strategy to expand its presence in the global arena of the AC market, particularly in the BRICS countries.

The Company is looking for opportunities for expansion and investment,including development of supply chain by getting its Chinese Vendors. This would be suitable in

Gujarat and well as Rajasthan. In Neemrana, Rajasthan Daikin and Hitachi manufacturing plants are there and so the market is close by. India has supply chain development for mobile phone and automobile industry, but not for compressors and home appliance industry, even though the Home Appliance industry is more labor intensive, according to the CEO of HIGHLY.

Haier Appliances (India) Company, Pune inaugurated its 2nd Phase in November 2017. Haier is ranked as No.1 home appliances brand in the world. Haier purchased GE Appliances in June 2016, further strengthening its leadership globally. The sales volume of Haier in 2016 accounted for 10.3% of the global market.

Another case is Midea: one of the oldest and household names in China white goods industry. In 2017, the Company decided to move its operations to Ahmednagar, Maharashtra. Spread over 43 acres , the facility will employ 500 people and be operational by 2018-end.The alternative choice was Vietnam. If they had moved to Vietnam, in 4-5 years the market will be saturated and they have to move again. So the company took a tough decision that even though it is more difficult setting up a manufacturing base in India, it makes better business sense in the long run since they don't have to worry about the market for the next 25-30 years.

The company has received incentives from the state and central govt. The state government thinks that Midea Group's investment will be a catalyst in bringing larger infrastructure and more employment to the region. The company has received commitment from seven of its vendors for investment in the region. Midea was looking for a green field facility where "we can build it up the way we like it and we can invite our partners to come and make investments over there. We have made similar ecosystems elsewhere and wanted to do something similar here". The Fortune 500 company currently has production facilities in Bawal,Haryana where it has facilities to make over seven lakh units of different appliances[22].

Electric Vehicles

Government of India's push for encouraging faster adoption of Electric Vehicles (EV) has the potential to be a big foot-in-the-door opportunity for Chinese companies that have developed expertise at manufacturing electric vehicles and allied infrastructure back home. Given that India's road map for electrification and China's leadership in EVs (60% of global volumes) and battery technology, we expect imports from China on EV components and sub-components to go up.

Also, the practically non-existent hardware manufacturing base in India is forcing OEMs and Tier-1 suppliers to import more from China. Drive transmission, steering followed by electricals, interiors and engine components from China form a major chunk of the imports.

With quality standards on the cards for aftermarket products and the government mandating local content for EVs in the recently announced FAME-II policy for e-mobility, imports from China are expected to drop in later years. “The government's intention is good, but it seems impractical to localise in such a short time,” said Ashok Taneja, MD & CEO of Shriram Pistons & Rings. "The problem, however, does not end here. India is set to join the RCEP (Regional Comprehensive Economic Partnership) agreement with ASEAN and another six countries including China, which could have a significant adverse impact on the domestic component industry in India as it will provide China with a long awaited duty-free access to the Indian market, said Vinnie Mehta, director, ACMA.

In our visit to the “Future mobility Show” organised by CII at the BIEC (Bengaluru International Exhibition Centre) in March 2019 there were stalls displaying electric

operated vehicles (cars, buses, cycles) and related manufactures. However, there were no Chinese partner companies or stalls, whereas Japanese ones were present.

However in 2017 Chinese electric vehicle giant BYD partnered with Hyderabad-based Olectra Greentech (formerly Goldstone Infratech) to assemble electric buses in Hyderabad. They plan to manufacture 5,000 electric buses per year in India by March 2021 and increase localisation content to 70%. BYD plans to make the country its manufacturing hub for exporting these vehicles to other South Asian nations. BYD Auto Industry Company Limited is the largest manufacturer in the world for pure Electric vehicles including electric buses. Currently, BYD is the world's only automaker that simultaneously masters the technologies of batteries[23].

In our discussions with Chinese industry representatives based in India, they informed that even though some investment and developments are taking place for EV buses, investment from China for manufacture of EV cars, 2-wheelers and 3-wheelers can also be developed. Shanghai is the centre for EV car and Xianxu for 2-wheeler EVs. It appears that this investment is also on the cards., Taiwan's Kymco, a maker of electric two-wheelers, has announced it will invest USD 65 million in Haryana-based electric scooter startup Twenty Two Motors over the next three years at Bhiwadi, Haryana. Strictly speaking, KYMCO isn't a Chinese company but the investment has come from its Hangzhou-based fund[24].

Draft National Policy on Electronics (Feb. 2019)

The NPE sets new goals and aims to make India a global leader in ESDM by:

- Promoting a gradual increase in value addition in the manufacture of electronic products
- Promoting research and innovation in industries for green processes and sustainable waste management
- Localising the design and manufacture of the microchips used in strategic and critical infrastructure sectors (like defense, space, atomic energy, telecommunications, aerospace, power, etc)

The www.electronicsb2b.com (March 2019) comments that the NPE 2019 is “High On Hope But Lacks Strategic Clarity”. Key industry experts shared their perspective[25] that the domestic electronics manufacturing ecosystem does not require government subsidies. Instead, it expects the government to be a catalyst for growth. Take the case of the Indian automotive industry—the government discourages automotive imports with its high duty structures and complicated registration process, compelling automotive companies to manufacture in India, resulting in a proper manufacturing ecosystem with high domestic value addition. The government should create a similar environment for the electronics industry as well, to facilitate long-term sustainable growth in line with the Make in India initiative.

4.3 Machinery and machine tools

"Pune is the most important hub of "Make in Maharashtra" said Consul General Zheng Xiyuan. As of now more than 15 large-scale Chinese enterprises have invested and operated in Pune, including SANY, Shandong Heavy Industries, Zoomlion, etc., which altogether add 4000 jobs directly. Some new large and medium projects by Chinese companies are seeking locations in Maharashtra, and if they are realized, another 4,000 new jobs would be increased again by 2018. If our bilateral relationship could remain stable, it is undoubted that Chinese investment would create more than 1 lakh job opportunities by the year 2022 across India".

Wanfeng Autowheel has invested about USD 50 million to establish a factory at Bawal, Haryana in 2013. Wangfeng now controls 70% share in India's two-wheeler alloy wheel market—with clients such as Hero, Honda, Bajaj, TVS—and manufactures 3 million units of aluminium wheels per annum. Another big Chinese investment in the machinery sector at Bawal industrial area is by the Hunan-headquartered, CRRC. They have made it big in the Railways segment, winning over 7 orders to supply metro coaches and components in India. In 2016, it established a joint venture with Pioneer (India) Electric to assemble electric motors factory at Bawal industrial area in Haryana. The Chinese company LiuGong operates a manufacturing plant at Pithampur Industrial area, (Madhya Pradesh) since 2009. The company is producing Heavy Earth Movers. LiuGong is one of the largest wheel loader manufacturers in the world.

Gujarat also has some Chinese investment in the Machinery Sector. Registered in 2014, Baosteel Factory located in Sanand GIDC, is highly capital intensive. They make steel sheets from steel rolls imported from China which is cut and shaped into sheets in this factory. The sheets are sold to car manufacturers in India. The factory is a small one by Chinese standards. Pinggao Group Power India Pvt. Ltd. also has their factory here since 2015-16. They make high voltage switches. Shaungma Machinery India Private Ltd. makes "Bole" brand Injection Moulding machines and employs 60 locals. It established its factory-workshop in April 2017, to supply machine fast and better service to all customers in

India. Shaungma is located at Swagat Industrial park, an hour's drive from Ahmedabad. It is more of a sales workshop like the KedaWorkshop in Morbi.

In Morbi Ceramic Tile Cluster in Saurashtra, the Chinese giant company - Keda Industries set up its workshop in 2017. Keda is the 2nd largest equipment manufacturer for the ceramic tile industry. Most Ceramic factories in this Cluster have bought Keda Chinese Machines for making vitrified tiles. The local Workshop has been set up to provide after sales service, spares and consumables to local the industry. They want to open a machine manufacturing factory but cannot do so because their supply chain is in China.

In addition to the heavy machinery, **the Machine Tools sector** is a small part of the total Machinery Sector. There are 4-5 big industry players, the rest are small scale manufacturers. 60% of turnover of Machine Tool industry goods market comes from the Automobile Industry.

The Indian Machine Tool Manufacturers Assn. (IMTMA) is headquartered in Bengaluru. Their representatives said that the 4-5 big players are investing in Tumkur Machine Tools Park(TMTP) so they don't need FDI from abroad, Chinese or otherwise. (for more details on TMTP refer Chapter 2.5 "Different Models of Cluster Promotion"). The IMTMA representatives said "there are no Chinese investments in Karnataka in Machine Tool industry. Investment is needed for bringing in financial capital or when better technology than our own is given by other countries. So they do not see the possibility of Chinese investment in this Sector. Chinese do come for all exhibitions and put up their stalls, exploring buyers in India".

Of the USD 2 bn worth Machine Tool used in India, 50% is imported, and 50% is Indian manufactured. The IMTMA vision is the make this 67% domestic manufactured. 12% Machine Tool used in India is imported from China and is growing. Imports comprise mainly the middle to lower range of Machine Tools. Second hand machines and products from China are also being bought at a very cheap price and being used by manufacturers in India. IMTMA had lobbied for imposition of import duty with the Dept. of Heavy Industry and Ministry of Commerce.

The IMTMA representatives said that China imposes non-tariff barriers on our exports. Ace Micromatic (Bengaluru) and Grindmaster (Aurangabad) are Indian Machine Tool manufacturers active in China. Due to the slowdown in China they also find their orders in China drying up. Last year was a bad year and their exports to China were affected.

Busy automotive clusters across India drive the industry— especially the three major clusters of Mumbai–Pune–Nasik–Aurangabad in the West, Chennai–Bangalore–Hosur in the South, and Delhi–Gurgaon–Faridabad in the North, as well as upcoming areas like Sri City, Anantapur and Sanand.

Indians, in earlier years, had reservations about Chinese brands but that seems to have been overcome by the new wave of products from companies like Xiaomi, TCL and Haier. In the auto industry, though, it's a different story. Companies like Shanghai-based SAIC Motor are using the MG (Morris Garage) badge to overcome customer reservations. The company's ads stress the MG name and its vintage British heritage. Similarly, the company that makes Volvo vehicles that sell in India is owned by Hangzhou-based Zhejiang Geely. Again, the company globally stresses its original Swedish parentage.

4.4 Textiles, Garments and Apparels Sector

Tech-savvy industries seem to be prospering and investments have come in, but their ability to create jobs and generate exports is actually dwarfed by the low-end industries like apparel, stationery and household items. However, both our desk research and discussions with several stakeholders showed that there is probably none or no significant Chinese investment in large scale textile/apparel manufacturing industry yet.

The following Textile SEZs are being developed in India[26]:

SEZ Name Status		**Sector**	**Details**
Tamil Nadu: Mahindra City SEZ (Functional)	600 ha	Apparel and fashion accessories	India's first integrated business cityIt is a cluster of 3 sector specific SEZs for apparels and fashion accessories; IT and hardware; and auto ancillary. The business zone provides plug-n-play working spaces. This zone comprises a SEZ (primarily for exporters) and Domestic Tariff Area (DTA) for companies targeting domestic market.
Gujarat: Surat Apparel Park (Functional)	56 ha	Textiles	Key industrial units include Safari Exports, Venus Garments, Benchmark Clothings, P. K. International, Tormal Prints, J.R. Fashion and Ganga Export.
Andhra Pradesh: Brandix India Apparel City (BIAC) (Functional)	400 ha	Textiles	BIAC is an integrated apparel supply chain city, managed by Brandix Lanka Ltd. It aims to be an end-to-end apparel solution provider.

In our meeting, Mr. Gautam Nair (CII National Committee on Textiles & Apparel, Industrialist - Owner of Martix Clothing Private Limited, Gurgaon) said this is the best time to promote textile and apparel sector in a big way for employment generation and growth and we should not miss this opportunity. The State Governments are also welcoming, especially for creating employment. Getting Chinese investment is a good way to go. Apparel Sector is suitable employment especially for ladies, since traditionally women are associated with "silai". It is possible to take agricultural workers and train them for work in Textile/Apparel factory in six weeks.

CII was going to discuss with the Central Government a plan for setting up a task force for attracting investment with 2 Action Points:

- do things at scale to achieve cost efficiency and for international market
- Synthetic fabric manufacture

Investment in apparel manufacturing industry can be done both with domestic and export market in mind. The two need not be mutually exclusive. Government should provide plug & play facility for textile/Apparel Cluster. He said Jharkhand State has a good textile policy and he has a knitwear factory near Ranchi. He had applied under Government of Rajasthan Scheme (SITP) to invest in Apparel Cluster but withdrew it because it was not suitable. Synthetic fabric items manufacture has big potential. The States of Jharkhand, Odisha, MP, AP are investment friendly destinations for textile/apparel industry, having a good policy.

Amita Batra, professor, School of International Studies, JNU writes: The most dynamic sectors globally, with highest production fragmentation based sectoral relocation across borders, which is characteristic of GVC led trade, have been sectors like office machinery, communication equipment and textiles and apparel. The only sector so far where India has been able to share gains of sectoral dynamism is textiles and apparel, though this has been alongside other countries such as China, Bangladesh and Vietnam. Even in this sector, over time, India's share in global exports has declined from a constant of about 5 per cent in 2000-2012 to 4 per cent in 2017. Over the same period, competing countries like Bangladesh have registered an increase in their share of global exports from 4.5 per cent to 8.1 per cent. China leads with a share of 37 per cent in global exports in textiles and apparel. India's export basket has not, therefore, evolved in line with the pattern of dynamic GVC-led trade.

The Karnataka Government, recently (Feb. 2019) approved a package of special incentives for Toys (Koppal) and Textile (Bellari) clusters under "Compete with China" Program. For textile cluster, the activities included are - Ready Made Garments (RMG), Hi-tech Weaving, Spinning, Technical Textiles, Textile Processing and integrated textile facilities. The same is attached in Annexure 2. Among the main objectives stated are: manufacture spare parts and assembly at village/taluk level, skill development training to 2 lakh youth in the state and generate 1 lakh employment in each cluster/district.

The ongoing trade war between the US and China will help India tap export opportunities in both the countries. Professor at Indian Institute of Foreign Trade (IIFT) Rakesh Mohan Joshi says "Strong opportunity is unfolding for India in apparel and ready made garments as after China, India is the only country in the world to match the scale of operations and integrate its supply chain for global customers".

4.5 Rubber

Mr. Janakar, Member, Governing Council Indian Rubber Institute (IRI), Chennai and Honorary Member All India Rubber Industries Assn. (AIRIA), informed that an Agreement was signed between Director General of SME Bureau of China and ASSOCHAM in 2012 for SME development in rubber in India, but nothing has happened on it.

The US is India's biggest market for rubber products, accounting for 14.1% of its overall exports of rubber products in 2017. The US is also India's largest tyre export destination, accounting for about 15% share of the total exports. If the US imposes higher tariffs on these products as in the case of the Indian steel and aluminum exports, it would contract India's exports.

The escalating US-China tariff war has serious implications for the Indian tyre & rubber industry as the US is China's largest import partner. It may open the possibility of China considering India as a dumping ground for the tyre and non-tyre products that face tariffs in the US.

It was only late last year that India imposed Anti-Dumping Duty on cheap Chinese tyres. The Indian Government has also increased the Customs duty on imported tyres from 10%

to 20%. These measures had helped to boost domestic tyre production. But the Indian tyre industry will suffer seriously if China decides to divert surplus tyre production into India at throw-away prices to clear the stock.

A silver lining amid gathering clouds is that there is a possibility that the US and China would consider third producers, including India, for their import necessities. India's share in USA's overall imports of rubber products in 2017 was only 1.62% as against China's 13.41%. So this is an opportune time for the Government of India to step up exports to these countries and thus turn adversity into advantage[27].

Vikram Makkar, president of the All India Rubber Industries Association, however says that[28] "India's organised rubber goods industry may get an opportunity to grab a larger share of the US market in the absence of China. But that is only a small percentage. Majority of the industry will feel the negative effect of increased import from China." More than the tyre sector, however, it is the non-tyre sector that is feeling jittery over the failure of the US and China to reach an agreement. Unlike the tyre sector the non-tyre sector has been at a disadvantage owing to an inverted duty structure and no anti-dumping duty to provide relief.

4.6 Plastics

There is very little Chinese investment in the plastic sector. A significant Chinese investment is Kingfa Science & Technology Company. Founded in 1993 it is the largest Modified Plastic enterprise in Asia Pacific with products sold across 100 Countries. Kingfa acquired controlling (66.5%) stakes in Indian compounder Hydro S&S Industries Ltd. in 2013.Presently, it operates through three manufacturing units situated at Puducherry, Pune and Manesar (Gurgaon). In view of the increased demand of products, they expanded manufacturing capacities at existing units at Puducherry and Manesar and are also setting up a major new manufacturing unit at Chakan Industrial Area, Pune of global scale and standards. Their products are: Plastic Products for Auto, Appliances, Lighting and electrical industry[29].

Plastic Waste Recycling Industry:

China grew up on recycling plastic scrap. At one time, it accounted for 40 percent of world plastic scrap imports. The recycling industry led to fall in price to the consumer, reduced cost of production and made the country competitive in the world economy. China has now banned the import of plastic scrap and prices have fallen precipitously. China's

“National Sword” policy, enacted in January 2018, banned the import of most plastics and other materials headed for that nation's recycling processors, which had handled nearly half of the world's recyclable waste for the past quarter century.

It is a good opportunity for India to fill the vacuum created by the ban. However India has gone the other way due to pressure from virgin plastic producers. According to Mr. Arun Goyal, Trade Law Expert and Director, Academy for Business Services: the ban on plastic waste import is created by MoEF on its own under Hazardous Waste Rules. It does not have the backing of the Basel convention on Hazardous Wastes. In fact, "solid plastic waste" other than halogenated is expressly allowed for trade by Basel. The vested interests have created monopolies at the cost of MSME, low cost production and employment. In order to correct this, detailed recommendations including opening up imports and duty structures need to be formulated. The Dhoraji (Rajkot) Plastic Waste Recycling Cluster model (see box below) should be replicated in every urban cluster to handle and recycle plastic waste.

Dhoraji (Rajkot) Plastic Waste Recycling Cluster

The 400 ~ units in Doraji are sorting waste collected from all over India. 10 to 12 truckloads land here every day. The waste is segregated into bundles. This is heated in controlled conditions to make lumps which are then extruded and twisted into thread or braids. Pipes are also extruded in a similar process for use in agri operations. Recycled products price is generally half the price of products from virgin material. There is no pollution from recycling of plastic waste.

There is scope for mixing plastics of different chemical composition. Thus HDPE goes into HDPE. The technology for mixing plastics, and also the machinery for heating and extruding is totally indigenous. Granules from reprocessed plastics derived from imported solid plastic scrap in Kandla Free Trade Zone are an important raw material source. This source will dry up in August 2019 as the import ban comes into effect.

The layered plastic in packaging of food products cannot be handled by Dhoraji producers. This needs special machinery to handle the layers in the pouch. There is scope for putting up plants for this but this involves large investments which are beyond the capability of Dhoraji who operate on paper thin margins derived from their share of Rs. 15 per kg in the processing cost of production. Total cost is about Rs. 50 per kg including material and transport cost. The local Patel community with land and human resources is behind the success of Dhoraji. They have no outside support, subsidies or loan. In fact, they only get problems by way of GST inverted duty. Refunds in the process is not easy.

Under its "National Sword" policy, enacted in January 2018, China has now cut off imports of all but the cleanest and highest-grade materials — imposing a 99.5 percent purity standard that most exporters found all but impossible to meet. Prior to China's ban, 95 percent of the plastics collected for recycling in the European Union and 70 percent in the U.S. were sold and shipped to Chinese processors. There, they were turned into forms to be repurposed by plastic manufacturers. Favorable rates for shipping in cargo vessels that carried Chinese consumer goods abroad and would otherwise return to China empty, coupled with the country's low labor costs and high demand for recycled materials, made the practice profitable. Several U.S. materials recovery facilities are expanding operations, upgrading equipment, and adding workers to improve sorting and reduce contamination so that the materials are acceptable to more discerning buyers. For example, Duong's Oakland-based company — which handles paper, plastics, and some metals — has modified its equipment and devised better ways of separating materials. The company has developed new markets domestically and in places like South Korea, Indonesia, and India.

5 Reducing Trade Deficit through Export Promotion to China

5.1 Pharmaceuticals, Agri-processed Goods and IT

The Chinese Consul-General, Mumbai said India is not using the strength of its service and software industry strength to get a bigger market footprint in China. That is because India is too focused on Europe and USA. On the scope for agri-processed goods export, he said China's traditional import from the USA and South America is too large for India to get a significant place in this market share. Some progress has been made recently for bean curd and rice export to China.

Associate Professor Yinghong[30] at the China Study Centre, Jindal Global University, Haryana said 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. Sandalwood is considered sacred and popularly used in Buddhist temples in China. It is scare and is in high demand. India should develop its cultivation as an industry for export to China.

Prof. Joe Thomas said focus should be not for decreasing imports but increasing exports. Our export basket to China is small and does not fulfil its potential. Let us export to China what we export to the rest of the world also (pharmaceuticals etc.). China uses non-trade barriers on Indian exports to China, the Indian Government needs to sort this out with Chinese Government.

In April 2017, at the Wuhan Summit, Prime Minister Modi and President Xi discussed increasing Indian exports of rice, sugar and pharmaceuticals to China. But Indian companies say that statements of intent from Chinese officials haven't always been followed through with action. Rice and sugar would, in any case, have a limited impact on narrowing the deficit. Indian companies continue to have a range of non-tariff barriers in China, particularly in IT and pharma, where a lack of transparency in regulatory policy has hindered Indian firms. Retd. Ambassador Bambawale says it is essential to work with the Chinese government to ensure greater market access in China for Indian pharmaceutical products, particularly our cheap formulations.

While the lack of a level playing field has certainly disadvantaged Indian companies, here, too, our approach hasn't helped either. 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.

A recent strategy paper (May 2019) prepared by the Commerce Department, Government of India[31] favours extending support to exporters by pursuing tariff reduction in the Asia-Pacific Trade Agreement (an accord among seven Asian countries) and the proposed RCEP. It talks of export incentives to adequately substitute the existing Merchandise Exports from India Scheme. As per the department, Indian pharmaceutical firms face regulatory hurdles and prolonged and unpredictable time lines for drug registration. They are asked to submit detailed clinical trial data and reveal the drug formulation process at the time of registration. On this, the ministry would look at establishing an interface between the Food and Drug Administrations of India and China for conduct of regular training programs on regulatory standards and processes of filling in China and relaxing the product registration time to a year from 3-5 years.

5.2 Cultural export and services promotion for reducing trade deficit

According to Retd. Ambassador Bambawale[32], trade imbalance cannot be only by enhancing Indian primary exports. He suggest the following sectors:

- We must attract Chinese tourists in large numbers,
- students for undergrad 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

We must look at the "invisible" part of our payment balance with China and make a focused effort at **attracting more Chinese tourists.** Marketing Incredible India in China will be a first step, but we shall also have to work with Chinese travel agents, the various airlines which fly between our countries, the new online agencies as well as the social media methodology to popularise India as a tourism destination. Naturally, we will also have to ensure facilities in India for Chinese tourists who have very special needs. If such an effort is indeed made, our mountains and our beaches, our temples and our heritage sites, our Buddhist trail as well as our wildlife sanctuaries are likely to be hugely popular with the Chinese—one estimate states that we can expect 1.5 million tourists to visit India by 2020.

Ravi Bhoothalingam, a Fellow at Institute of Chinese Studies, Delhi adds that 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. India is also relatively an inexpensive destination, with an ancient culture and a large-hearted tradition of welcoming guests. Tourism to India can fulfill a large part of China's future demand for leisure consumption in an enjoyable and cost effective destination.

On the entertainment front, Chinese got introduced to Aamir Khan with 3 Idiots and PK and were hooked with Dangal and Secret Superstar. China is now interested in everything Bollywood — from partnership and distribution rights to Indian directors and writers. Dangal raked in more than USD 194 million in just two months of its release in China, or a significant 40 basis points of India's trade deficit with China. Bollywood has the potential of delivering high-quality content for Chinese audience starving for differentiated and culturally relatable content.

In 2017, Indo-China joint production, Kung Fu Yoga, was one of the most successful films at the Chinese box office, earning more than USD 250 million. So far, Bollywood production houses focused on catering to Indian diaspora settled in foreign countries; whereas, in China it's the indigenous audience that has accepted the Indian content. **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.

Apart from the sectors, another export that has the potential for reducing India's trade deficit with China and adding to employment and income opportunities is **handicraft exports.**

Ever since China mechanized the mass production of handcrafted goods, the factory of the world has been exporting India's culture back to her. Ganpati idols, diwali lanterns, fancy pandal decorations and even intricate paintings from the Mahabharata and typical Indian saree's all bear the 'Made in China' stamp. China whose share in the world trade of handicrafts is around 30 percent has been known in the world to be a handicrafts producing country and famous for their ethnic designs, fine raw material bases of China Clay and excellent craftsmanship. Further, manufactured at a much cheaper scale and copied en masse, China's stamp on traditional Indian goods is still a common sight[33].

However, now as the Chinese consumer travels around the world more, is exposed to multiple cultures, and has an increased purchasing power, the demand for international, more exotic goods such as silk scarves, embroidered and painted wall hangings and metal artwork have seen a high demand. Furthermore, as Chinese manufacturers scale to move up the value chain, the manufacture of handcrafted materials which still requires its finer touches to be hand-made are seeing a fall in interest. Chinese state governments which traditionally encouraged such local industries, are also finding more lucrative, less labor demanding businesses to pour their money into.

In 2013, India and China signed a memorandum of understanding for promotion of exports of Indian handicrafts[34]. A MoU was signed between the Export Promotion Council for Handicrafts and the China Council for the Promotion of International Trade (CCPIT) to explore the possibilities of enhancing handicrafts from India to important markets of China. The MoU also stated that India will also organise the first exclusive exhibition of Indian handicrafts in China. Further exchange of techniques, craft exchange programmes and Reverse Buyer Seller Meets will also be organised by both the countries. The delegation led by the Secretary, Textiles, Government of India also held meetings with Shanghai Textile Association, Shanghai Textile Trade Association, Shanghai Import & Export Chamber and Shanghai Mart.

Handicraft exports are likely to more than double from Rs. 3 bn. (~USD 45mn) in FY15 to Rs. 6 bn. (~USD 90 mn) this year (FY16-17)[35]. "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.

Kumar said that more than 90 Chinese buyers placed orders worth Rs. 200 crore (Rs. 2 bn) at the recent IHGF which is Asia's largest fair for handicrafts and gifts. The number of Chinese buyers was almost half in the previous fair. While the US and EU have been the major destinations for Indian handicraft exports accounting for almost 65% of the total, China is among the other new markets that are keen on Indian handicrafts. Finding new markets has become essential for India as it faces intense competition from its South Asian neighbours. It competes with Malaysia and Vietnam in wooden handicraft and Korea in metal handicraft. Bangladesh is a competitor in jute while it takes on Pakistan on stonework and the Philippines on items made of bamboo.

The India China Economic and Cultural Council (ICEC) Delhi, took a delegation of 46 artisans to exhibit their products in the 2015 Guangdong 21st Century Maritime Silk Road International Expo. 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 and provide a huge opportunity for Indian handicrafts[36].

6 Annexures

6.1 Annexure 1: List of Persons Met

Annexure 1 : Main List of Persons consulted for Study (December 2018 to May 2019)

1		2		3		5	
Industry/Sector Representative		**Govt., Policy**		**Consulting/Academic/Research**		**Chinese representatives in India**	
Name	**Orgn**	**Name**	**Organisation**	**Name**	**Organisation**	**Name**	**Organisation**
Mr Vinod Sharma	CEHA, ELCINA & DEKI Electronics, Noida	Retd Amb Bambawale	VC Symbiosis Univ. Pune	Prof. Joe Thomas	China Studies Centre, Humanities Dept., IIT Madras	Mr. Amit Li	Ex Huawei, Draphant Group, Delhi
Mr Gautam Nair	CII Textiles & Matrix Garments	Mr Arvind Mayaram (retd IAS), Economic Adv.	Economic Advisor to GoR	Manoj Kewalramani	China Centre, Takshila Policy Institute, Bengaluru	Mr. Yin Shah	HIGHLY Electrical Appliances Ltd, Gujarat
Mr Bharadwaj	FISME, Delhi	Mr. Vikram Doraiswamy IFS	MEA (posted korea,China)	Mr. Sunil Rallan, Mr. S	Chennai Centre for China Stud	Prof. Yinghong	China Centre, Jindal Univ
Mr. Sundar Ram	FDI consultant, Chennai	Mr. Mohd. Suleman (IAS)	PS Industry, GoMP	Mr. Vishal Kalia	E&Y (Bhopal)	Mr. Tang Guocai	Consul-General, Mumbai
M/S Shreedhara, Mohan	IMTMA , Bengaluru	Ms. Rujul Upadhyay	IndexTb Industries Dept., GoG	Mr. Ashish Dhawan	China India Foundation, Delhi	Mr. Zheng Bin	ICBC Mumbai
							MCEA Chairman
Mr. Janakar	Rubber Institute (IRI), All India Rubber Industries Assn.	Mr. Divay Pranav	Invest India, GOI, Delhi.	Arun Goyal	Academy of Business Services, Delhi	Yin Shah, HIGHLY India PVt. Ltd.	Gujarat Chinese Enterprise Association members
						Baosteel India Company Pvt. L	
Mr. Sunil Rallan	MD, Chennai FTZ pvt. Ltd			Mohd. Saqib	India China Economic & Cultur	Mr. Daniel Yuan, CASME Indus	
						PINGGAO Group Power India	
Mr. Dangayach	Sintex, Ahmedabad					Shaungma Machinery India Pr	
						Maxwood Industries Pvt. Ltd	
Mr. Patel	Morbi Ceramics Associations					Keda Industries	
Mr. Vipul Patel	Caramia Granito LLP Tile Factory, Morbi						
Maj. Neil Castelino	CII, Bengaluru						
Mr. Somi Hazari	Transnational Strategy Group Chennai & Sri Lanka						

6.2 Annexure 2: Examples of different Industrial Cluster/Parks in India

Bhiwadi Electronic Manufacturing Cluster is in Rajasthan, 50 kms away from Gurgaon. ELCINA had made the scheme and started it. It is like a cooperative of the manufacturers. It is an interesting model but is running into problems because it was designed and implemented in a hurry.

Tumkur Machine Tools Park(TMTP) Karnataka: In discussion with the IMTMA, we were informed that under the "Invest Karnataka" Program, the Government of Karnataka and Government of India had started the TMTP in 2017 that can house 500 industries including all manufacturers in the supply chain. The idea is to get the full value chain players in the TMTP to cater to the domestic market to get localized production instead of imports. The IMTMA which is headquartered in Bengaluru is facilitating TMTP establishment. The GoI investment is 250 Crores and is a first of its kind. If successful, it will be tried in Pune and Gurgaon also.

However, it is only in its initiation and will be years before it is well-established in Tumkur. The GoK is inviting investments for TMTP. Some Indian investors are Jyoti Industries (Rajkot), ACE Micromatic (Bengaluru), Bharat Pfizer etc. Some Japanese (for medium) and German (for heavy) manufacturers are investing, but no Chinese so far.

SRI city (Satyavedu Reserve Infracity Pvt. Ltd), Andra Pradesh is an industrial park 55 kms from Chennai. It is developed by a private developer. Sri City includes a multi-product special economic zone (SEZ), a domestic tariff zone (DTZ), a free trade & warehousing zone (FTWZ) and an electronics manufacturing cluster. Under the public-private partnership model, the government of Andhra Pradesh granted single-window start-up approvals for setting up in Sri City, along with functional infrastructure approvals. People who gave away their land for the development of Sri City were "princely" compensated and had been benefitted by more ways than one. This helped a number of agrarian families to take to business elsewhere in Tirupati, Nellore and Chennai.

Ten summers after it was founded in 2008, Sri City (Private) Ltd. is now on a self-sustaining mode. In an interaction with The Hindu, Ravindra Sannareddy, managing director of Sri City, however, said that the challenges were much greater as Sri City stepped into a fresh decade. The only area of concern is an anticipated shortage of labour once the larger companies begin operations. Currently, labour is sourced from the neighbouring villages. SriCity has attracted big names but only time will tell how it will manage with the availability of power supply and labour.

Pune Auto Industry Cluster is an example of a good manufacturing cluster. Chakan (near Pune) is now home to a Special Economic Zone (SEZ) promoted by the Maharashtra

Industrial Development Corporation (MIDC). It has since evolved into a major automobile hub. It hosts automobile production plants for the Volkswagen Group, Daimler-Benz, Mahindra & Mahindra, Jaguar Land Rover and Bajaj Auto, General Electric, Hyundai. Over 750 large and small industries, including a number of automobile component manufacturers, are based in the area.Land is available in Chakan through resale of MIDC/ Freehold land. MIDC has already allotted land to Chakan MIDC in different phases named as Chakan Phase 1, 2 and 3 but still the supply has not met the demand. So to meet the requirement, it has purchased and is purchasing land from the farmers. The new purchased land will be directly allotted through MIDC.

Gurgaon automobile manufacturing hub is the first major cluster developed back in 1983.The Maruti-Suzuki factory was set up through a JV between the Japanese private industry and the Indian Government through Maruti Udhyog Ltd.The design of this initial JV helped the auto industry get established and pioneered the Sector development in the country.

The UP Electronics Manufacturing Cluster in NOIDA, (referred to above for the PMP) is alsoa model where State Government is a partner. The Phased Manufacturing Program (PMP) of the Dept. of Electronics set up at NOIDA is a good start though some problem are beginning to crop up.

In Gujarat, we visited and discussed with representatives about 3 different types of cluster development: by the State Government (GIDC) mentioned below, by foreign investment (CASME Industrial Park Pvt. Limited) and an old organically developed cluster (Morbi Ceramic Tiles Cluster) both detailed in section 2.5 in the main Report.

Sanand GIDC, Gujarat is spread across 2,200 hectares and houses plants of Ford, Tata Motors, Nivea, and host of other MNCs and hundreds of small scale units. **It also has some Chinese investment.** The Baosteel India Factory was set up here in 2014. It is highly capital intensive, making steel sheets for the car industry. Pinggao Group Power India Pvt. Ltd. has got 30,000 sq.m land for their factory in in 2015-16 on a 99-year lease. They make high voltage switches.

About GIDC at Sanand, it was also reported[37] “Gujarat government has rolled out a red carpet to multinationals like Ford and Tata Motors, while it has neglected small unit coming up in Sanand GIDC. These plots were allotted in 2011. The units, as per the norms were required to start production within three years from date of allotment. "The corporation in reply to our RTI query has accepted that there was no infrastructure such as water and power. GIDC's failure to create infrastructure in time has led to non-utilization of plots. The smaller units have demanded that the date of allotment should be changed to 2015” said Ashok Patel, vice president, Sanand Industries Association.

6.3 Annexure 3: Govt. of Karnataka Incentives for Toys, Textiles Cluster

PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Sub: Approval for special incentives package for investments in Toys Cluster in Koppal District and in Textile Cluster in Ballari District under Compete with China Program.

Read:
1) Government Order No. CI 130 SPI 2018(P1), dated 14.09.2018.
2) Government Order No. CI 130 SPI 2018(P1), dated 10.08.2018.
3) Government Order No. CI 130 SPI 2018(P1), dated 14.12.2018.
4) Letter No. I&C/L&M/P&P/CWC/EO/IP/2018-19, dated 23.01.2019 of the Commissioner for Industrial Development and Director of Industries & Commerce, Bengaluru.

-:0:-

PREAMBLE:

Government has accorded approval to implement "Compete with China" Program announced in Budget 2018-19 in 9 Districts / Clusters viz., Kalaburagi (Solar panels, inverters, capacitors, laminators etc.), Chitradurga (All kinds of LED lights), Hassan (Tiles, Sanitary wares and bathroom fittings), Koppal (Toys & mechanized toys), Mysuru (Integrated Circuit Boards (ICB)), Ballari (Textiles), Chikkaballapur (Mobile Phone components & assembly), Tumakuru (Sports and fitness goods) and Bidar (Agricultural implements) vide Government Order No. CI 130 SPI 2018 (P1), dated 14.09.2018 read at (1) above

Nine Sectoral Vision Groups were constituted headed by the Industry Leader of the respective sector to give suggestions on the implementation modalities for the respective cluster vide Government Order No.CI 130 SPI 2018 (P1), dated 10.08.2018 read at (2) above.

The general operational guidelines were issued vide Government Order No. CI 130 SPI 2018 (P1), dated 14.12.2018 read at (3) above for Compete with China program, which stipulates formulation of special incentives package for the clusters over and above the incentives and concessions provided under the existing applicable State policies.

The Vision Groups of all the 9 clusters have held meetings and have deliberated on modalities to be adopted for development of product specific manufacturing clusters in the identified districts. The Vision Groups in their meetings have resolved that the following are the important requirements for development of manufacturing eco-system in the respective cluster and have made sub-groups to submit reports on each.

- Investment plan and products to be manufactured.
- Government interventions in terms of incentives – fiscal and non-fiscal.
- Training requirements.
- Infrastructure requirements.

Among the 9 Vision Groups, initially Toys (Koppal) and Textile (Ballari) Vision Groups have identified the prospective investors, land for the projects, products to be manufactured and training requirements. These Vision Groups have also stressed the need for Government interventions in terms of additional / special incentives over and above the incentives offered in the State Industrial and Textile Policies in order to attract investments to the identified districts. After due deliberations among the Vision Groups Members, they have submitted the incentives wish list and non-fiscal policy and procedural interventions required for development of the cluster.

The prospective investor's identified initially in Toys and Textile Clusters are mentioned below:

1: **Toys Cluster – Koppal:**

a) M/s Aequs has acquired 255 acres of land in Koppal and is developing SEZ in 128 acres and DTA in 127 acres. The SEZ has been approved by Government of India.

b) M/s Aequs in joint venture with M/s GFT Industries, China is proposing to invest Rs. 1500 crore in SEZ area creating about 25000 employment over a period of 5 years.

c) Toy manufacturers in Delhi NCR region have also shown interest and are planning visit to Koppal.

d) Road Show is planned in Hong Kong, where major Toy manufacturers are located, to attract Chinese investments.

2: **Textile Cluster – Ballari:**

a) M/s Shahi Exports has agreed to establish 8 units in different parts of Ballari district with total investment of Rs. 320 crore and employment of 16000.

b) M/s Gokuldas Exports has agreed to establish 2 units with total investment Rs. 80 crore and employment of 4000.
c) M/s JSW Steels, Rs. 30 crore investment – 2000 employment.
d) M/s Binary Apparel Park has agreed to establish Apparel Park in 25 acres with 10 units of total investment of Rs. 100 crore and employment of 5000.
e) M/s Royal Intex has agreed to establish 1 unit with Rs. 25 crore investment and 1200 employment.

Based on the requirements of each cluster and incentive wish lists provided by Toys and Textile Cluster Vision Groups, the Commissioner for Industrial Development and Director of Industries and Commerce has prepared draft special incentive packages for these clusters and were discussed with the prospective investors on 21.01.2019.

The Commissioner for Industrial Development and Director of Industries and Commerce vide letter dated 23.01.2019 read at (4) above has recommended special incentives package for Toys & Textile Clusters separately under Compete with China Program and requested the Government for approval for the same in order to propagate the same among the prospective investors of the sector and attract investments for the respective clusters. It is also informed that special incentives package for other clusters will be worked out separately in consultation with the respective Vision Group and prospective investors of the sector and will be submitted to the Government in due course.

Hence the following order:

GOVERNMENT ORDER No. CI 22 SPI 2019, BENGALURU, DATED 05.03.2019

In the circumstances explained in the preamble, Government is pleased to accord approval for following special incentives package for investments in Toys Cluster in Koppal District and in Textile Cluster in Ballari District under Compete with China Program:

I. Package of special incentives for Toys Cluster in Koppal District under Compete with China Program:

(Activities: Wooden and Traditional Toys, Mechanised Toys, Educational & Building Toys, Dolls, Baby and Infant Toys, Games & Puzzles)

Sl. No.	Components	Quantum approved
A) UNITS		
1	Capital Investment Subsidy	30% on Fixed Assets (Land, Building, Machinery, ETP & Dormitory) (Sanctioned subsidy would be released in 5 annual installments linked to achievement of projected annual sales turnover as detailed in the note below)
2	Reimbursement of Stamp Duty & Registration Charges	100%
3	Reimbursement of Land Conversion Fee	100%
4	Interest Subsidy on Term Loan	5% subject to a maximum of Rs.7.5 crore per annum on Term Loan for 5 years
5	Power Tariff Subsidy	Rs.2 per unit for 5 years
6	Electricity Duty Exemption/ Reimbursement	100% for 5 years
7	ESI & EPF (Employer contribution) Reimbursement	75% for 5 years capped at 20% of VFA
8	Wage Subsidy (Only for direct employment and continuous service of at least 6 months)	Rs.1500 per month for 5 years
9	Freight Subsidy (Only for Exports)	Rail / Road freight charges to the Sea Port, for 5 years as below: Year 1 & 2 - 75% Year 3,4 & 5 - 50%
10	Rent subsidy for units within SEZ	Reimbursement of 50% of rent or maximum of Rs. 5 per sq.ft. per month for 3 years (Minimum lease period should be 10 years)
11	Skill Development Assistance	Rs.12,500 per candidate per training course of minimum 30 days or actual, whichever is less

12	Assistance for Common Facility Centres	1. Subsidy of 25% for Common Facility Centres established for the use of multiple units on chargeable basis in the cluster. 2. 25% cost reimbursement on Certifications. 3. Centre of Excellence, CIPET Centre, NID Centre: Subsidy of 50% on fixed investment.
B) Developers (Minimum of 50 acres Industrial Park to be developed):		
1	Capital Investment Subsidy	1. 10% on fixed capital investment in Factory buildings and Infrastructure facilities. 2. 25% for Common Facility Centres.
2	Interest Subsidy on Term Loan	5% subject to a maximum of Rs. 10 crore per annum on Term Loan for 5 years.
3	Subsidy on CETP & CSTP	50% on fixed capital investment subject to a maximum of Rs. 25 crore.
4	Reimbursement of Labour Welfare Cess	100% for 5 years

Note:

a) This package of incentives will be in operation for 10 years from 2019 to 2029.

b) Only new investments in Koppal District for Toys Manufacturing will be eligible for incentives under this package.

c) The incentives at Sl. No. 7 & 8 of Toys units will be provided to industries employing more than 50 people and generating at least one direct employment for an investment of Rs.5.00 lakh.

d) The operational phase incentives at Sl.No. 4 to 10 of units will be administered on a half yearly basis.

e) The expenditure for administering this package of incentives will be met out of the budget under "Compete with China Program-Other Expenses" 2852-80-102-0-04(059).

f) Incentives / Assistance available under other applicable State and Central Policies / Schemes can be availed. However, duplication of incentives / assistance will not be permitted.

g) Sanctioned Capital Investment Subsidy will be released in 5 annual installments. Release of each installment of Subsidy will be against achievement of annual sales turnover projected in the Detailed Project Report (DPR) and as evidenced by the annual audited accounts / audited balance sheets in proportion detailed below:

Sales turnover for the year (% of annual projections in DPR)	Subsidy release eligibility for the year
80% and above	100%
70% - 79%	90%
60-69%	75%
50-59%	60%
Below 50%	Nil

(i) The sales turnover includes sales within the state, inter-state and exports.
(ii) The unit will not be eligible for release of capital subsidy for the year in which its sales turnover is less than 50% of the projected turn over.

h) Technical Committee would be constituted to certify Toys enterprises other than the enterprises mentioned above.

II. Package of special incentives for Textile Cluster in Ballari District under Compete with China Program:

(Activities: Ready Made Garments (RMG), Hi-tech Weaving, Spinning, Technical Textiles, Textile Processing, Integrated Textile Facilities)

Sl. No	Components	Quantum approved
A)	**Textiles**	
1	Capital Investment Subsidy	40% on Fixed Assets (Land, Building, Machinery, ETP & Dormitory) *(Sanctioned subsidy would be released in 5 annual instalments linked to achievement of projected annual sales turnover as detailed in the note below)*
2	Reimbursement of Stamp Duty & Registration Charges	100%
3	Reimbursement of Land Conversion Fee	100%
4	Interest Subsidy on Term Loan	5% subject to a maximum of Rs.7.5 crore per annum on Term Loan for 5 years
5	ESI & EPF (Employer contribution) Reimbursement	75% for 5 years capped at 20% of VFA
6	Power subsidy	Rs. 2 per unit for 5 years
7	Skill Development Assistance	Rs.12,500 per candidate per training course of minimum 30 days or actual, whichever is less

B)	Garments	
1	Capital Investment Subsidy	30% on Fixed Assets (Land, Building, Machinery, ETP & Dormitory) *(Sanctioned subsidy would be released in 5 annual instalments linked to achievement of projected annual sales turnover as detailed in the note below)*
2	Reimbursement of Stamp Duty & Registration Charges	100%
3	Reimbursement of Land Conversion Fee	100%
4	Interest Subsidy on Term Loan	5% subject to a maximum of Rs.7.5 crore per annum on Term Loan for 5 years
5	ESI & EPF (Employer contribution) Reimbursement	75% for 5 years capped at 20% of VFA
6	Wage Subsidy for RMG Industries (Only for direct employment and continuous service of at least 6 months)	Rs. 1,500 per employees for 5 years
7	Skill Development Assistance	Rs.12,500 per candidate per training course of minimum 30 days or actual, whichever is less

Note:

a) This package of incentives will be in operation for 10 years from 2019 to 2029.

b) Only new investments in Ballari District for Textile / Garment Industries are eligible for incentives under this package.

c) The incentives at Sl. No. 5&6 will be provided to Garment industries employing more than 50 people and generating at least one direct employment for an investment of Rs.5.00 lakh.

d) The operational phase incentives at Sl.No. 4 to 6 for both Textiles and Garments will be administered on a half yearly basis.

e) The expenditure for administering this package of incentives will be met out of the budget under "Compete with China Program-Other Expenses" 2852-80-102-0-04(059).

f) Incentives / Assistance available under other applicable State and Central Policies / Schemes can be availed. However, duplication of incentives / assistance will not be permitted.

g) Sanctioned Capital Investment Subsidy will be released in 5 annual instalments. Release of each instalment of Subsidy will be against achievement of annual sales turnover projected in the Detailed Project Report (DPR) and as evidenced by the annual audited accounts / audited balance sheets in proportion detailed below:

Sales turnover for the year (% of annual projections in DPR)	Subsidy release eligibility for the year
80% and above	100%
70% - 79%	90%
60-69%	75%
50-59%	60%
Below 50%	Nil

(i) The sales turnover includes sales within the state, inter-state and exports.
(ii) The unit will not be eligible for release of capital subsidy for the year in which its sales turnover is less than 50% of the projected turn over.

The Commissioner for Industrial Development and Director for Industries & Commerce shall properly scrutinize the investment proposal i.e., the DPR so that investment/ sales turnover/employment correlate to existing industry benchmark. In no case shall the total incentives for both the clusters exceed Rs. 3500 crore (Textile & Garment in Ballari) and Rs. 3300 crore (Toys Cluster in Koppal) respectively over the next 10 years.

Further, the above incentive package is being agreed to only for Ballari Textiles and Garment Cluster and Koppal Toys Cluster. It is emphasized that this should not be the benchmark for investments outside the designated clusters or for formulating the new Industrial Policy or Textile Policy etc., for 2019-24 or beyond.

The Commissioner for Industrial Development and Director for Industries & Commerce shall prepare operational guidelines for administration of these incentives & concessions.

6.4 Annexure 4: Chinese Enterprise Associations in India

Gujarat Chinese Enterprise Association (GCEA):

In the meeting with GCEA in April 2019, Mr. Yin Shah,CEO of HIGHLY India, who had spearheaded the formation of the GCEAsaid there are about 30 Chinese companies in Gujarat, all are 100% FDI. They are in plastic, textile and ceramic sector. This Association

RGICS study team with GCEA members, GIDC Sanand.

was needed in order to have better communication with the Gujarat Government officers from time to time on policy matters. The Chinese find the policy and support ecosystem for manufacturing industry in India is very different and difficult especially compared to China.

Mumbai Chinese Enterprise Association (MCEA)[38]:

MCEA was incorporated on November 1, 2015 and covers Mumbai, Maharashtra and Karnataka. Mr. Zheng Bin MD of ICBC Mumbai Branch, is the Chairman of MCEA.

Maharashtra is currently the only state to sign up as a local Government to recognize and support this Chinese Association. Its current registered members consist of more than 60 companies. Mumbai has the representative offices of ICBC, Bank of China, Air China, and large Oil Companies. In Pune there are investments (JV and FDI) in the auto sector. Some of the MCEA members include: SANY Heavy Industry India Pvt. Ltd, ZTE Telecom India Pvt. Ltd., China India Shipping Pvt Ltd, Huawei Telecom India Pvt Ltd, Zoomlion India Pvt Ltd, Baosteel India Company Pvt Ltd , Wisco India Pvt Ltd; China Harbour Engineering Company (India), Wanhua India Private Limited and Sepco3 Electric Power Construction Co.

In India the policies and environment varies from State to State and the Chinese compare notes with each other. MCEA is also trying to educate its members not to look only for concessions. The Chinese enterprises and manufacturing investments in Mumbai, Pune, etc. are high investment but low employment oriented. The GCEA (Gujarat Chinese Enterprise Association) member factories create comparatively higher employment.

Bangalore Chinese Chamber of Commerce:

According to MCEA Chairman, there is an informal arrangement for a Bengaluru Chapter led by a Chinese lady married to an Indian living there. It was launched in 2016. A lot of Chinese VC funds have invested in Bengaluru in the IT sector.

Married to an Indian, CharuPurohit is jijie (older sister) to ~500 fellow Chinese residents of Bengaluru—over 1,000 if you count the floating population of corporate travelers.

“For Chinese people, much of India does not make sense. They cannot hope to crack the market unless they understand it,” she says.

Building on her experience in corporate China and her years in India—she moved here in 2006 and worked at Oracle. She set up ACN Global - a business to help Chinese companies gain a foothold in India. ACN Global has helped 50 companies, most of them trading and manufacturing units, set up an India office in the past two years. The Chamber of Commerce was her idea. “I spent my first two years here eating noodles and feeling homesick. But now when I go to Shanghai, I miss the warmth. My son could be wailing as I struggle to handle my luggage at the airport, but no one will cast a second glance at me, let alone help,” she says. She cannot imagine driving her Grand i10 back home. “To be taken seriously as a businesswoman, I'd have to drive a BMW, wear designer clothes and travel with a secretary. I'd have to cultivate a personality,” she says. “In India, there is no such baggage. That's what I tell people who want to move here.”

Chindia Chamber of Commerce and Industry (CCCI), Gurgaon

CCCI (http://en.ccei.org.in) is a non-profit organization set up in the year 2012 through contributions from the Chinese Companies doing business in India and the Embassy of P.R. China in New Delhi, India. More than 100 Chinese Companies are members of the CCCI. The members range from large scale MNC's to small and medium scale enterprises and traders belonging to various sectors such as Power, Mining, Healthcare, and Consumer Goods etc. Members are mainly located in Delhi, NCR Region, Mumbai, Gujarat, Pune and other parts of the country.

India China Chamber of Commerce & Industry (ICCCI)

This is a Government of India recognized all-India organization, registered as a Society. It was formally inaugurated in Mumbai on 20 March 1990 by the Foreign Minister of the People's Republic of China (www.indiachinachamber.com). The ICCCI completed 25 years of existence in 2015. As an exclusive Chamber focused on China, Hong Kong and Macau, it promotes mutually beneficial trade, commerce, investment, industrial collaboration, joint ventures, international exhibitions, business delegations, economic cooperation, people to people friendship etc.

The Chamber has signed agreements of cooperation with most of the Sub-Councils of the CCPIT (China Council for Promotion of International Trade) representing different Provinces and industrial/commodity sectors which enables the Chamber to provide varied services to members. It works in close cooperation with Consulate General of People's Republic of China, Mumbai, Embassy of PR of China, New Delhi, Embassy of India in Beijing, Consulate General of India in Shanghai and Hong Kong, other Chambers of Commerce, Trade Associations, Export Promotion Councils and Trade facilitating agencies in India It is also a member of the International Chamber of Commerce-India (ICC-India), World Trade Centre of Mumbai and Maharashtra Economic Development Council (MEDC) etc. ICCCI brings out a monthly News Bulletin, and has Chinese language education programme in Mumbai, Pune, and New Delhi and also provides interpretation, translation, promotion services in Chinese.

The China India Forum: is hosted annually by the Chinese People's Association for Friendship with Foreign Countries (CPAFFC), the China -India Friendship Association (CIFA) and Poddar Enterprise Group, Mumbai.

The Sixth China-India Forum meet was held at Bengaluru in 2017 where China signed a MoU for setting up electric vehicle hub with Imperator Autocorp Pvt. Ltd. The 7th CIF was held at Pune in 2018. The 8th China India Forum is tentatively scheduled to be held in New Delhi on 13-14 November 2019.

India China Economic and Cultural Council (ICEC), Delhi is an autonomous membership based organization founded in 2003 with a vision to enhance economic and cultural cooperation between India and China. ICEC has assisted in building partnerships through consulting and advisory services.(http://www.icec-council.org).

Private Chinese Business Facilitation Enterprises in India: A few Chinese, after many years of working in India have set up private consulting enterprises with offices in India and China. With the emergence of interest and large number of Chinese organisations and entrepreneurs looking set up operations in India, they provide a range of business facilitation services. **The ACN Global in Bengaluru** was referred to above.

Draphant Group Gurugram, established in 2013 (http://en.draphant.com/), focuses on the Indian investment services sector. It currently has three offices in Shenzhen, Beijing and New Delhi. It is an integrated business service solution provider with three business segments: media community, business services and investment incubation. Draphant has served more than 450 Chinese companies including Huawei, ZTE, Wanda, CRRC, CNPC, Gome, China Unicom, Cheetah Mobile, vivo and other public enterprises, private companies and emerging start-ups.

Topline Consulting (www.topline-consulting.com.cn) is a China-based strategic communications firm. They opened their first international operation in Gurgaon in 2018 and subsequently in the short span of four months, opened offices in Mumbai and Bangalore.

End Notes

1 http://www.rgics.org/wp-content/uploads/Working-Paper-on-Chinese-Goods-Make-in-India-Create-Jobs.pdf

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RAJIV GANDHI
INSTITUTE FOR CONTEMPORARY STUDIES

RAJIV GANDHI INSTITUTE FOR CONTEMPORARY STUDIES
Jawahar Bhawan, Dr Rajendra Prasad Road, New Delhi 110 001 India
T 91 11 2331 2456, 2375 5117 / 118
E info@rgics.org W www.rgics.org