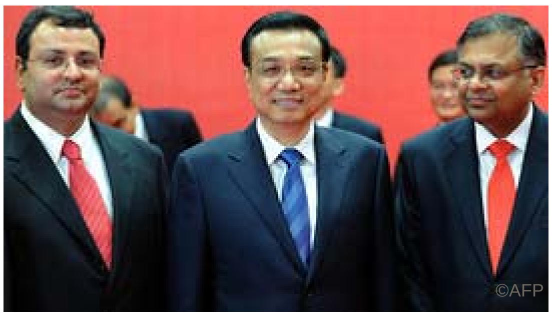
FINANCIAL TIMES

ft.com > companies > byregion >

May 21, 2013 2:42 pm

Business leaders talk up India-China trade target

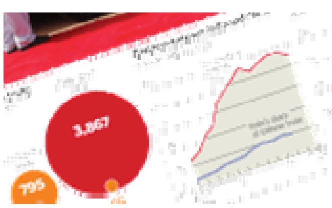
By James Crabtree



Li Keqiang with Tata Group's Cyrus Mistry and N. Chandrasekaran

Amid all the talk of closer business ties between Asia's two great emerging economies, Monday's inaugural meeting of the India-China chief executives' forum in New Delhi could scarcely have asked for two more appropriate chairmen.

Billionaire Anil Ambani of India's Reliance group and Hu Huaibang of China Development Bank presided over an event designed to coincide with Chinese premier Li Keqiang's debut visit to India this week, and both talked up the odds that their countries could meet a $100bn trade target by 2015.



It was an act the duo had practised before, however, not least as Mr Ambani's conglomerate has moved to raise more than $5bn in loans from China over the past few years, much of it co-ordinated by Mr Hu's bank, as part of a pattern of financially troubled Indian companies seeking inexpensive Chinese financing.

One further such deal was inked during Mr Li's trip, as the Essar Group unveiled a three-way oil-for-loans pact with CDB and oil group PetroChina, in which the Indian company will look to raise $1bn in exchange for supplying China with products from its oil refining business.

Yet while these agreements are proving a boon for overstretched Indian industrial houses and expanding Chinese state-backed banks alike, in other ways the story of the corporate links spanning these two Asian economies is rather less happy.

Trade between India and China actually fell to $68bn in the year to March, a decline of 11 per cent caused mostly by a fall in Indian exports. This was led by sectors such as iron ore, where a series of domestic regulatory snarl-ups have stopped shipments to China entirely.

Even without such problems many Indian exporters have struggled to gain much of a foothold in China's expanding market, including large IT outsourcers such as Tata Consultancy Services, whose offices Mr Li visited in Mumbai on Tuesday.

Indian companies and consumers, by contrast, have proved only too receptive to Chinese products, sucking in an ever-rising tide of imports, from giant industrial boilers and power plant turbines to the many colourful plastic Hindu deities sold on stalls in the country's heaving street markets.

"India has been much more receptive to China's money and goods than it has been to Chinese firms setting up shop," says Eswar Prasad, an economist at the Brookings Institution. "It seems there is still a little layer of suspicion about some of these companies."

Such suspicions relate mostly to Chinese telecoms equipment makers, notably Huawei and ZTE, both of whom have established sizeable operations in the country, but whose business activities are often the object of national security worries from nervy Indian politicians.

Elsewhere many of China's most prominent players in sectors such as construction and infrastructure equipment are only now beginning to consider establishing domestic plants to serve India's market, instead of relying on exports alone.

"When we go to China now we find all of the top players have an India investment strategy, which is a big change. It's just not that many want to begin making things here yet," says Kamal Rungta, managing director at EJ McKay, a consultancy that advises Chinese companies mulling entry into India's market.

A trickle of Chinese players are now moving in, including Sany Heavy Machinery, one of China's largest construction equipment makers, which began operations in the western city of Pune last year. TBEA, a power equipment manufacturer, is also setting up a plant in the business-friendly state of Gujarat.

Yet even companies set on establishing facilities face numerous obstacles, as with Feida, a Chinese group making complex air quality control equipment for use in power plants and factories. The business earned around $100m in exports to India last year, managing director Andy Wang explains, but is still only examining options for domestic production.

"It is difficult, and especially if you are searching for land or going through policy procedures it can be troublesome," he says. "India is doing better, and we want to grow here, but in China it is simpler. Land is easy, industrial parks are available. All you need is to select the place and go."

Such concerns might feel oddly familiar to the many western companies that have struggled against a backdrop of India's slow-moving, fickle bureaucracy. In manufacturing, Chinese companies that otherwise might be attracted into a country that plans to spend $1tn on infrastructure over the next five years also face the same mix of onerous labour regulations and weak infrastructure that has hobbled India's own growth in this area.

"As India gets more into domestic manufacturing, perhaps China will set up more facilities here to win over some portion of this activity," says Chetan Ahya, Asia-Pacific managing director at Morgan Stanley. "But for India to improve, it just needs to become more competitive in manufacturing. And China isn't stopping India from doing that."