

# Beating India's drum as investment haven



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Prime Minister Narendra Modi appears to have convinced the Japanese that they will greatly benefit by putting their money in India's growth story during his reign. The Chinese too seem interested

**T**he key ingredient in transformational Modinomics is massive investment into infrastructure and manufacturing. Japan is going to contribute to this vision by investing \$35 billion over the next five years. This includes funding and technology for India's first bullet train from Delhi to Ahmedabad.

It remains to be seen if China, 'expansionist' or not, chooses to top this, as it eminently can, given its very deep pockets. Will India be able to engage both Asian giants with finesse and without upsetting any apple-carts?

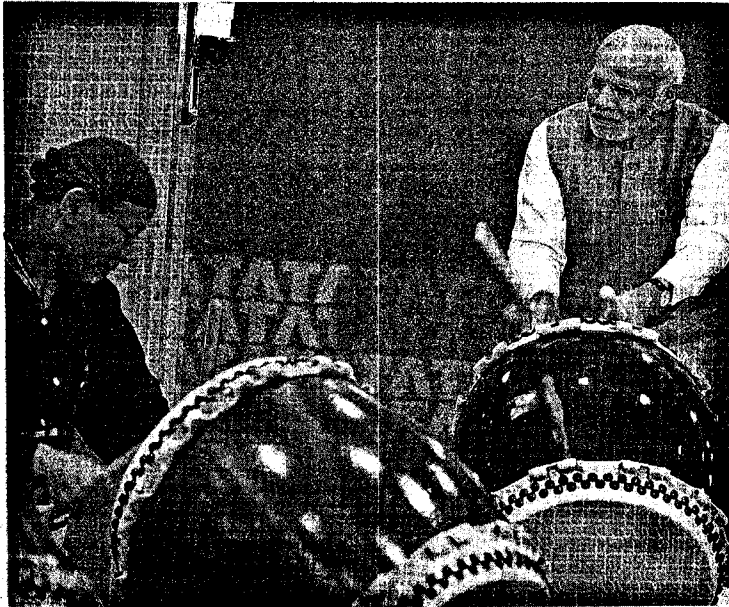
In many fields, such as engineering parts, pharmaceuticals, bulk drugs, auto components, India is a 'sourcing' haven already. We have a lot of the rare-earths needed in high technology — and Japan is keen on accessing it — and large reserves of thorium, an alternate to uranium and very useful in nuclear energy development. Given that the Japan-India bilateral relationship is being upgraded to a strategic level, progress on such things can be expected.

A number of Indian companies are now considered world-class, with quality products and requisite attention to detail. To some extent this is the consequence of good quality higher education in this country in the IITs and the IIMs, and the persistent protectionism practised for many years. But as yet, these excellent manufacturers are too few and far between, and need to become numerous, even ubiquitous.

The logic of Japanese investment to 'make in India' is compelling from both sides. India needs Japanese technology, know-how, training and skill-development, processes and investment. Japan finds the intelligent labour pool and the cost savings, particularly on high-end manufacturing of design-intensive items, can allow it to competitively export to other countries, as well as service a huge domestic market.

Japan as a country long suffering from stagflation, must seek out new growth engines. To some extent the smaller South East Asian countries are saturated, and have slowly risen into high wage entities. India, just starting on its stage two economic reforms, including weeding out obsolete laws and revamping labour statutes, is making a bid to become a manufacturing hub to the world.

Mr Modi's slogan of 'red carpet,



pet, not red tape' is sincerely meant, and there are a lot of convinced businessmen in Japan willing to take him at his word.

For China, one of the main long-term reasons to manufacture in India is demographics, with 65 per cent of the population being under the age of 35, whereas their own population is ageing. Also wages in Guangdong Province, where most of the export oriented manufacturing is located, have risen over 50 per cent. China is trying to move some of its manufacturing into its Western hinterland where cheaper labour is available. But with the developed economies languishing, demand for China's massive volumes of low-end manufacturing with medium quality is not what it used to be. Still, as a rich totalitarian country, it can afford to subsidise its exports to gain market share, should demand revive again.

Meanwhile, like Japan, China too will be attracted to India's ability to manufacture parts and componentry higher up the value chain, something that it is not very good at. India's own thrust to reduce its dependence on imported arms and defence equipment is another potent area where China with its extensive defence production industry

access to Afghanistan's mineral riches. Pakistan may take in a lot of Chinese arms and even nuclear power stations, but cannot really pay for them. It is practically bankrupt and lives on large the US and Chinese grants.

Meanwhile, the roads across the Akshai Chin, the Gilgit area, and the Karkoram Pass are all completed. India observation posts in Pakistan-occupied Kashmir have come along with Chinese-aided infrastructure development. Roads and train lines have been built to the Sikkim border and also to Lhasa and beyond.

There is not much economic percentage left in a volatile Pakistan verging on a failed state. Besides the 'long-time ally and all-weather friend' has not hesitated to foment Islamic terrorism in China's Tajikistan Province.

China's India encirclement policy, the string of pearls, is well-nigh advanced, with ports in Sri Lanka, developments in Myanmar, bilateral cooperation with Nepal and Bhutan and hard patrolling of the long borders. There is also the burgeoning blue water navy and China's ambition to dominate not only the South China Sea but the

Indian Ocean as well. The US has tacitly conceded the space, and to some extent India and China have to find an accommodation with in this emerging strategic reality.

But through it all, it is believable enough that China has no actual territorial ambitions in India. It is just keen on being the undisputed top dog, and forcing India to toe its line in international affairs, including BRICS. To this end there is a carrot and stick approach with allurements of support for a permanent seat in the UN Security Council and invitations to the Shanghai Group regionally.

But undeniably, there is much business to be done in India, given the size of the market. India is in a bold resurgence under Mr Modi, and the \$68 billion trade in China's favour is not going to be as significant going forward as making in India, especially if other countries rush forward to do so. As it stands, in FDI terms, China is a laggard, with a mere \$1.1 billion invested in Gujarat.

Mr Modi's Government seeks trillions in infrastructure and manufacturing investment in short order, and both China and Japan, amongst others, have a great opportunity to contribute to this grand vision.

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could certainly help.

But most of all, China hopes to bag a number of large infrastructure projects because it can both finance them and is indeed very good at executing them on time. It has already done a stellar job on Mundra Port and is expanding a container terminal in Coimbatore. It can also help and has offered to contribute in many areas including food processing, telecommunications, agriculture, roads, ports, airports etc.

India on its part, is all set to revoke the MAT and DDS taxes on manufacturing in its becalmed special economic zones and elsewhere, and there will also be a special facilitation cell for the Japanese working out of the PMO and a hotline between Prime Ministers Modi and Shinzo Abe. Similar facilities to prioritise Chinese engagement will no doubt follow.

China's President Xi Jinping is due to visit this month and even the current geo-politics favours a closer relationship between the two countries. China's client state Pakistan, apart from being a much smaller opportunity, is largely fished out.

It has already yielded the prize of access to Balochistan and its raw materials, a strategic port on the Gulf, and good office

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8.9.14