Foreign direct investment in target emerging economies is competitive. Japan and China have each announced new investments in India. The investors do not simply rely on geopolitical imperatives. “Sitting on a reserve of $4 trillion, China needs profitable avenues to use its savings and find employment for its citizens. Chinese companies need places to invest their cash reserves, export their technology and skills and open new markets for their bulging stocks,” writes Nayan Chanda, YaleGlobal editor in his column for Businessworld. “[President] Xi hopes that by drawing India into China’s growing economic empire and according India economic advantages, it can be wooed away from the US and Japanese embrace.” China is India’s largest trade partner and Chanda reviews both the successes and challenges. Ongoing cooperation on foreign direct investment requires attention to local hiring, balanced trade and quality controls, as well as resolution of border issues that divide India and China. – YaleGlobal

China is India’s top trade partner; ongoing cooperation requires attention to local hiring, balanced trade, quality control and resolution of border issues

Nayan Chanda
Businessworld, 10 October 2014

The breathless announcement that China would invest $100 billion in India over a five-year period, just before President Xi Jinping’s arrival has given way to a more sober number. Implementing even the scaled-down $20-billion worth agreements that were signed would still pose a challenge. India’s own recent record of working with Chinese investors and Africa’s experience with massive Chinese investments offer valuable lessons about such an opportunity.

The perception that there was a bidding war between China and Japan for India’s affection was reinforced by a Chinese consul general, who bragged that Chinese investment in India would be three times that of Japan’s. The fact is it is not just geopolitical imperatives that drive investment decisions. China, like Japan, has solid economic and business reasons to invest in India. Sitting on a reserve of $4 trillion, China needs profitable avenues to use its savings and find employment for its citizens. Chinese companies need places to invest their cash reserves, export their technology and skills and open new markets for their bulging stocks. Xi hopes that by drawing India into China’s growing economic empire and according India economic advantages, it can be wooed away from the US and Japanese embrace.

Under the radar, China has made remarkable inroads into the Indian economy. India’s largest trade partner China enjoys $36 billion surplus. Forty per cent of India’s power generation comes from Chinese equipment – a share that will grow when the power plants under construction come on stream. China’s communication technology giant Huawei, barred from the US on suspicion of being a security threat, counts India as its biggest market. Thanks to China’s low-priced technology, the number of cell phone users has soared to 933 million and the basic call rate in India remains the world’s lowest. On the other hand, Chinese goods of all kinds have flooded the market, threatening the domestic industry.

Using China’s low-cost power generation equipment, too, has shown some downsides. Machinery has often proved unreliable and the cost of repairs necessitated by sending heavy machineries back to China has eaten away the initial gains of low price. Yet another problem in accepting China’s low bid on international tender on power and steel projects was its need to bring in thousands of Chinese workers to deliver completed projects on time. In the summer of 2009 the Indian government woke up to the fact that about 30,000 Chinese workers had been brought into the country by the Chinese partner-firms in violation of visa rules. They were all forced to return to China causing delays and cost overruns.

Apart from the linguistic barrier, security concern about importing a large Chinese work force would be problematic while domestic unemployment is high. Timely completion of the Chennai-Mysore high-speed railway project is likely to require the import of Chinese engineers and technologically competent workers. A senior Indian official, though, privately said it would not be allowed. Similarly, recent pacts for construction and maintenance of industrial parks, railway carriages and highways were likely to call for skilled Chinese workers if the projects have to be finished in the stipulated time and with quality. (A 386-mile long railway project in Kenya signed last spring would require 5,000 Chinese workers to work beside 30,000 African workers. Already there are over 10 lakh Chinese in Africa.) In Africa, where China has invested majorly in developing infrastructure, railways, housing, power and telecommunication there have been complaints of poor quality construction and a blow to the domestic industries from a flood of cheap Chinese goods.

While cheap Chinese credits to IndiGo to buy Airbus planes and modernisation of energy and telecom sectors would benefit India, economic cooperation would probably be hobbled by concern about poor quality of equipment and suspicion, as long as border issues remain unresolved.

The author is editor-in-chief of YaleGlobal Online, published by the MacMillan Center, Yale University.