

## Google Hangout – Transcript

### Xi Jinping & Narendra Modi: Beyond business as usual

**Dev:** Good evening! Hi, welcome to this Gateway House, Google Hangout panel discussion on the economic relationship between India and China ahead of President Xi Jinping's visit to India next week. I'm Dev, I'm with Gateway House and I'm joined by a panel of three. Joining us from Hong Kong we have Jack Marr who is the advisor to the City University of Hong Kong. He has held advisor roles in China with McKinsey and also set up the NYU's Business School in Shanghai. Welcome Jack. Joining us from Beijing we have K.J.M. Varma who is PTI's Beijing correspondent where he has been covering China issues for the last three years. Welcome. Finally, joining us from Mumbai we have Luis Miranda who is an advisor to Gateway House. He also advises Morgan Stanley and a number of other organisations. Welcome Luis. I'm going to delve straight into the issues here. The economic relationship between India and China is perhaps the most promising aspect of the bilateral. But with the economic relationship, there has also been a growing trade deficit between the two countries and this has been a big thorn in the relationship. And this is something that is likely to be addressed in the meeting that's coming next. Luis I want to speak to you on this issue. I want to ask you about the industrial parks that President Xi Jinping is supposed to announce next week. Do you think these industrial parks will really help lower the trade deficit? What will they really look like?

**Luis:** I think it's interesting Dev, thank you. Things like the industrial parks will be good for India because it brings in capital over here. The challenge really is whether we are able to get our act together to really capitalize on this opportunity. There will be a lot of flows coming in. What will we do with these industrial parks? What is the impact on manufacturing that we do? As you have talked already, the trade deficit is large and I guess we will discuss that in more detail but a lot of the exports from India are to do with commodities and a lot of the imports from China are to do with manufactured goods. Will these industrial parks help to change that is something we need to look at. And I presume we'll also talk about some of the challenges with some of the sectors that we are exporting with and the role of the IT sector and the pharmaceutical sector. It will be good to see more investment from the Chinese into infrastructure in India because they've been able to build that up really successfully. The question really is to do with, and maybe at some later stage in this chat we can talk about the issue of trust and the concerns people have had because years back for example, Hutchinson could not bid for ports in India because it could be a national security threat. So these are some of the challenges we need to figure out

because unless we get over this trust deficit between the two countries on security, we're going to be continuously second-guessing.

**Dev:** Right. Thank you Luis. Jack, you've seen China make investment as they globe trot in a number of regions and a number of countries. What do you think their investment in India's infrastructure will look like and what do you make of their offer?

**Jack:** I believe that China has, in some ways, made the first mover, in terms of developing countries in rolling out massive large scale and effective infrastructure. It's not perfect but it blows away anything that we see anywhere else in the world. So, I think that China, in many ways feels, rightly so, that they have accumulated a lot of experience in terms of rolling out these sort of projects – airports, dams, container ports, highways, Maglevs, high-speed trains etc. So I think this is really an area and I think that this is one of the areas that he [President Xi Jinping] thinks he can add value to India. So the question is, can India accept the infrastructure.

**Dev:** That's an important question Jack and actually I'm going to pose that to Luis. Luis, what are the areas that you think we should really direct this investment to? I mean roads, railway – railway is something that everyone has been talking about. Which sectors do you really think we should direct this money to?

**Luis:** Three areas I would put in. The two largest ones are power and roads because that's really where the most investment is required. And there's been talk about \$300 billion over 5 years etc., so power and roads are the two main sectors. As of now already a lot of the power plants are being set up by using Chinese equipment any way. Roads has been an interesting thing and Jack I come back to the point that you made about the expertise, and clearly when I visited China I've seen excellent infrastructure but when the golden quadrilateral was being built out and some of the Chinese companies were involved with the construction over there, in a lot of cases they weren't successful. So either they were not being able to manage the environment that they were working in or whatever, but those experiences at the time of the golden quadrilateral build up, some of the Chinese contractors were not very successful. I don't have enough information, maybe they partnered with the wrong guys in India, I'm not sure but that's been one experience. And the third part now is really, there's a lot of talk now about high-speed trains. And here comes the problem of, and that's something which India has to fix, which is the tariffs. We can't have lower class trains and charge uneconomic rents because then it just becomes a non-starter.

**Dev:** Thank you Luis. Mr. Varma, Luis talked about these industrial parks and setting up of manufacturing here, but all this requires an exchange of people. He talked about the trust deficiency and all this requires an exchange of people and for that we need a liberalised visa regime. Do you expect any visa deal to be done at this meeting next week?

**Varma:** It's very interesting. In fact the visa regime was really worked out last year when former Prime Minister Manmohan Singh visited here, there was a big talk. We all know that the two sides worked very hard on that but the biggest issue was this political issue about visas to people from Arunachal Pradesh which China calls Southern Tibet and China continues to deny, rather, give stapled visas which is not acceptable to India. And in fact the two countries had the experience of sorting out these kind of difficulties because we managed to sort out this 2011 and 12 most sticky dispute about stapled visas to people from Kashmir, Jammu and Kashmir. So that has been sorted out. China has given some kind of assurance to India and that has been sorted out and the relations became sort of normal. So the nitty-gritty of visa regime were available on both sides for a while but this is a sticky issue. So what I understand is that there is an informal understanding on both sides to implement it, implement this particular liberalised visa regime that what has been agreed to without probably signing a deal on that. So in China, the Indian Embassy here maintains that you get your visa in three days and business visa, even at times in 24 hours. So they have already taken steps, they are trying but of course these are the things to be checked rather practically but there is definitely a sense in both sides that whatever has been talked about regarding stepping up investments it cannot be successful unless it is backed by a liberalised visa regime.

**Dev:** That's correct. It is my understanding that there are plenty of businesses here in India that have had problems bringing in Chinese citizens to work here so I'm sure they will be looking and hoping to exploit these new opportunities.

**Varma:** I think India has to take a decision in this. If we are looking for investments, there will be large scale inflow of Chinese workers, Chinese labour, Chinese experts, whosoever which are not comfortable with earlier because we have the obligation to provide jobs to our own people back home. That was perhaps the earlier thinking. But that is in my view, a lot of Indian corporates today, who are looking at tie-ups or who are having tie-ups, that includes Reliance and others, prefer Chinese labour because you know, they just come and deliver on time as they probably follow a time-bound work pattern. So there is probably a preference for that. But I think that this is something that the two sides have to decide because if you're looking at heavy investment flows, India has to live with this idea of more Chinese labour coming to India and working

**Dev:** Great, thank you Varma

Jack I'm going to turn to you, and actually we are going to cross the border look into China and look at the market access issues that Indian companies face in China, particularly pharma and IT companies.

We know that after the 3<sup>rd</sup> party plenum last year the party plans to liberalise investment for foreign companies, particularly in some sectors like pharma. How can Indian companies take advantage of the opportunities that might present itself over the next few years?

**Jack:** That's a difficult question, Dev.

China's main focus is on improving their ability to create technology particularly in field like IT and pharma. So in so far as you have foreign competitors entering the market it is challenging. This across the board in IT sector in terms of web based technology there have not been a lot of born winners in the market. The US led this initiative starting with Google but personally its difficult to say that India as a late comer to the game is going to make massive market penetration. But on the flipside there are a lot of business which are foreign invested which are doing very well. Especially in terms of cloud in terms of service, in terms of pharma research, in terms of being able to do bed side development. But I think the real issue is, not just for india, but for any foreign company that's wants to succeed in the Chinese market is to look at the entire value chain and not stay focused on being the end brand. Because china wants to develop its brands and that's what China is doing.

**Dev:** That's an important point you made. But is there any form of lobbying that Indian companies can take up and follow the American example like with Amcham.

**Jack:** Yes, so I think... I've had a lot of contact in my time with China with the confederation of industries. It's a very good lobbying form. It's very good idea for India to work with other countries in order to build a lobbying front for general business issues. So clearly you will be with competitors but there is a lot of strength in numbers. I think that the American chamber of commerce, the European chambers of Commerce, the Australian chamber have been very very good in being able to push through a lot...they affect individual businesses but they ultimately are country level issues and I think India would be a very welcome player in these initiatives and would add strength to say that we are in globalization, this is how the supply chain works, this is the way things are happening, this is what we as Indian companies and foreign companies need.

**Dev:** Thanks Jack. Luis what do think? Can Indian companies start more aggressive with their lobbying and follow the American example of pushing for greater market access and regulations?

**Luis:** I think there has to be closer cooperation between Indian companies and the Indian government.

I remember attending a talk two days back with the new U.S. Consul-General and he talked about how the U.S. government doesn't work closely with the private sector. I disagree with that I think there is a very close linkage.

The Indian government must take a larger role in taking the interests of the private sector not just the public sector and that's really the way a lot of other companies have been able to get better market access.

It will be interesting to see what Varma has to say about this and does the Indian private sector need to work closer?

**Varma:** I think you hit the nail on the head. In my experience in the last 4 years is the Indian govt perhaps is pushing quite a lot both on pharma and IT and I don't see them(private sector) doing much with the private sector doing much either.

About the Pharma sector you have to understand the market here is it is a market dominated by multinationals. There is huge lobbying, in fact all of us are all aware of the recent scandals with GSK about bribing doctors and several issues. They are very well entrenched. The biggest problem for pharma here, despite that fact that ours are comparatively we give far cheaper medicines, our drugs are cheaper than what is available in China; we are not able to convince Chinese to open the market. It takes 6 or 7 years for an Indian firm to event you need to invest in this place, keep your people for a long time, you need to as Jack said maintain those lobbies and probably wait for your turn.

That is where Indian government is trying to convince the Chinese government this is actually not a way to provide market access by actually clocking Indian companies. I personally think I think Indian companies themselves must do a lot of work. Yes, Indian government is one aspect but you can't be piggy backing on the shoulders of diplomats and ministers trying to drive your point. You need to stay here, study the markets, keep your best people. In fact in IT the Indian best brains are here and they are trying to break into the very tight Chinese market and make their mark project by project. We need to work both ways - private and public sector.

**Dev:** We at Gateway House have been talking about the need for economic diplomacy and the need for the new Modi government to combine the strengths of the private sector and the knowhow and the networks of the public sector to really leverage India's unique strengths.

Mr Varma, you are in Beijing covering all these issues, you covered the visits of NSA Ajit Doval and Commerce minister Sitharaman that happened over the last couple of weeks. What's the

mood in Beijing, what's the Chinese media saying about the visit, is there anything the Indian audience should know about?

**Varma:** The mood is certainly one of I would even say excitement. Because I think China know Modi well, they have dealt with him during the past decade or so and if you look at entire Chinese investment there are arguments that India's investments works out to over 400 million and but 90% of China's investment is in Gujarat . So I think probably If there is one government who knows Modi well, apart from Japan, it is China. That's the reason for excitement. There is excitement basically because India was averse to Chinese investments that are how they see it. There was reservations from our side especially concerns from the Home ministry on various projects. But I must say for the past 2-3 years India has been trying to showcase its \$1 trillion infrastructure projects. But I do see the Chinese looking at India in a very big way. But I'm not sure if it is going to be 300 billion. Possibly they will start with these two industrial parks, one in Gujarat and Maharashtra for 5 billion each and then probably pick up the threads from there on.

**Dev:** thank you. Actually we are all out of time. It is been a quick but insightful discussion, thank you Jack, Varma and Luis for taking the time to join this hangout and for you insight.

Thank you everybody for watching, do Tweet at us with your comments using [#GHLive](#), thanks, good bye