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All set to flower

Relationships between India and China are reaching a new high. Together, they can ensure that this will be an Asian century.

An **India Now** report.

Photographs by Palashranjan Bhaumick

When history is relegated to the history books, geography maps the future. India and China are neighbours. They have shared glory together; in 1500 AD, both India and China had 25 per cent of the world's gross domestic product (GDP) each, making them the richest countries of the time. They have faced disaster together; in the last decades of the 19th century, millions died in both the countries because of famines.

"Now we are facing the future together," says Zhao Gancheng, director of the Institute of South Asia Studies at the Shanghai Institute for International Studies. "The two countries share lots of common interests and views on issues of bilateral, regional and global relevance."

"This is the India China Friendship Year," says India's ambassador to China Nalin Surie. "The response to some of our programmes has been fantastic."

Barely 12 months ago, India didn't enjoy such a high profile. The man on the street in Beijing or Shanghai associated the country with IT (information technology) and *Awaara* (the 1951 Raj Kapoor hit). Today, at the Little Wild Goose Pagoda in Xian, a tourist guide did entertain us with a version of *Awaara Hoon*. But in Shanghai's Xintiandi, a night market and outdoor bar area, they are belting out *Dil to Pagal Hai*. Foreigners and Chinese alike are jiving to the beat. Says Manoj Srivastava, who works with ExxonMobil at the Fujian refining and ethylene project: "They are singing our song."

No one can quite put a finger on when exactly this change

took place. It has happened so unobtrusively that most Indians in China don't notice the difference. It takes an outsider, visiting China at two different points of time, to realise the transformation.

"It's a natural progression," says S.S. Naik, the chief representative of Reliance Industries in Shanghai. But his job profile has changed somewhat. From a very large exporter, Reliance is today thinking of moving into acquisition mode.

One catalyst for the new awareness could be the ramp up in trade. India's total trade with China in 2005-06 was \$18.7 billion, up from \$12.1 billion the previous year. Given this growth rate, China will soon replace the US as India's largest trading partner. "Trade between the two countries will touch \$100 billion by 2005," says Yu Ping, chairman of the China Council for the Promotion of international Trade, who was recently in India at the head of a Chinese business delegation.

India is also trying to promote more value-added items in its export basket. Today, exports are largely restricted to primary articles such as iron

ore. "We need to focus on this area," says ambassador Surie.

"China is



India's second largest trading partner. India is however, 15 to 16 in the list of China's trading partners."

Exports and imports don't directly impact the man on the street. So one has to look for other reasons to explain the step-up in awareness. It helps that the politicians have been making all the right noises. India's Defence Minister Pranab Mukherjee recently returned from a visit to China very upbeat about the future.

"The Asian space is not limited," he said. "They are playing their role; we are playing ours."

Want another example of political compliments? At a seminar on India China Bilateral Economic Cooperation in Mumbai in March 2006, China's Commerce Minister



Bo Xilai told the gathering: "India's power is infinite." Ambassador Surie is trying to arrange a visit by a top Chinese politician to mark the India China Friendship Year. There will be another occasion for such effusion.

"Politicians are facilitators," says Srivastava of ExxonMobil. "The relationship is really being driven by economic issues. Indian companies are coming to China; Chinese companies are going to India. There is a good deal of crosspollination."

It helps that the world has started talking about the two countries in the same breath. Today, they are considered the twin engines of growth, which will drive the world economy for the next few

decades. In the first quarter of this calendar year, India had a GDP (gross domestic product) growth of 9.3 per cent. China's growth in the corresponding period was 10.3 per cent.

From competing in the global arena, the two countries have moved to cooperation. It was different even last year. In August 2005, PetroKazakhstan accepted a \$4.18 billion offer from China National Petroleum Corporation (CNPC). India's ONGC Videsh Ltd (OVL) had been in the race. In September, a Chinese consortium bought Canadian oil firm EnCana's assets in Ecuador for \$1.42 billion. OVL withdrew from the race after showing interest initially. Analysts say that the Chinese companies have ended up paying too high

a price. (The PetroKazakhstan deal was struck at a 21 per cent premium over the market price.)

The two are now going it together. In December 2005, they won a joint bid to buy Petro-Canada's 37 per cent stake in Syria's Al Furat oil fields for \$573 million. ONGC and CNPC are now planning to make a joint bid for other energy assets in Kazakhstan. "It's a win-win situation," says an energy analyst.

It's not just in energy. Last year, Union Mines Minister Sis Ram Ola and China's Minister of Land and Resources Sun Wensheng signed a memorandum of understanding in Delhi to set up joint ventures (JVs) in third countries. In IT,

"THE REAL RUSH IS YET TO COME"

The Indian Ambassador in Beijing — Nalin Surie — is a very busy man these days. This is the India China Friendship Year, and he has his hands full. The day India Now met him, he had flagged off a 10-day cultural programme at the Beijing University. In the afternoon, he inaugurated the first-ever office of an Indian bank in Beijing. "I have worked two-and-a-half years to get Indian banking into this area," he said. And there was more lined up for the evening. Amid this busy schedule, Surie found time to share his views with India Now. Excerpts:

On the India China Friendship Year.

The response we received this morning (at the Beijing University) was fantastic. There are so many Chinese students wanting to know more about India and participate in these events.

It's not just students. We have an elaborate schedule throughout the year for economic, cultural and social events. The response has been phenomenal. This will take us several steps forward in India-China relationships.

On Indian companies coming to China.

Everyday, we get information that a new company has started operations in China.



There are more than 100 of them now. Earlier, it was quite an event. Today, it doesn't create such excitement.

On the scale of Indian operations in China.

You can't expect to have very large-scale investment and operations overnight. Most Indian companies are still testing the waters. The real rush is yet to come.

On Chinese companies investing in India.

People seem to feel that Chinese compa-

nies are not going to India, that they lack interest in the country. That is not true. They are going in the areas of their strengths. They are participating in a big way in infrastructure-related projects. They are not so much in consumer areas. They are not so visible.

On the perception that even a single large US MNC would have invested more than all the Indian companies put together.

It's the wrong way of looking at it. It depends on the area of operations and the objective. Indian companies invest abroad in a big way where necessary. Look at the Tatas; they are putting in \$2 billion in Bangladesh.

On whether this will be a Chinese century or an Indian century.

I think this whole business of an Indian century or a Chinese century is a media creation. Yes, it is true that India and China are growing economic powers but so are several other countries, particularly in Asia.

It may be more meaningful if you talk about an Asian century. A century is 100 years. There can be several cycles. The Indian media may be talking about an Indian century. But remember that there are 94 years left.

everyone is talking about Indian software expertise joining hands with Chinese hardware skills. The combination could be formidable.

"India and China have the longest history of civilisation," says China's consul general to India Song Deheng. "We are the two biggest developing countries; we are neighbours. Friendship and cooperation is inevitable. If we join hands, we can make this the Asian century. But others would like to abet the rivalry between the elephant (India) and the dragon (China) to check each other. Cooperation is the desirable blueprint; confrontation is a nightmare."

Cooperation is growing. Last year, the Chinese government, Tata Consultancy Services (TCS) and Microsoft set up a three-way JV. TCS will spearhead the operation with a 65 per cent holding. Microsoft and three Chinese companies designated by the National Development and Reform Commission will share the remaining stake. "When Microsoft agrees to be the junior partner, you sit up and notice," says John Shen, a hospitality sector entrepreneur in China who runs several Indian Kitchen restaurants. "TCS — and, therefore, India — has been upgraded on our radar screens."

V. Rajanna, till recently head of Tata Information Technology (Shanghai) Co Ltd, says that the company has recently set up a new software development centre in



SIGN OF THE TIMES: McDonald's is all over the place in China

A BOUQUET OF BANKERS

The State Bank of India (SBI) opened its representative office in Shanghai in August 1997. It was the first Indian bank to set up shop in China. Since then, several others — ICICI Bank, Punjab National Bank, Canara Bank and Bank of Baroda, to name a few — have taken the plunge. But they have all stayed in familiar waters — Shanghai and Shenzhen. The latter is a stone's throw from Hong Kong.

It was only on 22 May this year that Beijing was added to the map when Bank of India (BoI) flagged off its representative office. Under the system in China, a bank has to maintain a representative office for two years before it is allowed to start normal operations. SBI and BoI's Shenzhen branch have qualified. Others will get the green signal soon. The Reserve Bank of India (RBI) has also okayed the China plans of three other banks — Allahabad Bank, UTI Bank and UCO Bank. What explains this scramble? Of course, there is business to be done. But, surely, there is not sufficient business for more than a dozen Indian banks?

S.R. Doddappagoudar, Beijing chief representative of BoI, explains that most of the banks are simply following their customers. If they don't go to China, some other Indian bank will take over their clients' business here. "You can leverage that into capturing some of the business back home in India," he says.

For the first two years as a representative office, the Indian banks are anyway cost centres; they can't perform most of the normal banking functions, so they can't make money. The acid test will come only after some time.

Besides, the banking system in China is a bit of a black hole. Nobody quite knows how sound it is. Experts say that the non-performing assets (NPAs) have mounted to \$673 billion. Some Indian banks feel that they can lend their experience to help their counterparts climb out of the mess. When Canara Bank chief M.B.N. Rao visited Beijing last



CAPITAL QUEST: The inauguration of the first Indian bank in Beijing

year, he offered such help to a congregation of Chinese bankers.

CMD of BoI M. Balachandran says that his bank has always led from the front. "China is now the second-largest trade partner of India," he explains. "BoI would like to tap the immense potential of the growing India-China bilateral trade."

Meanwhile, Chinese banks are also planning India forays. Industrial and Commercial Bank of China, the country's biggest bank, has had talks with the Reserve Bank of India on opening a branch in India. The Singapore-based United Bank of China has also made an application.

The fact that so many Indian banks are already in China and not one Chinese bank has started operations here is no reflection on interest levels, say observers. First, there are many more Indian companies in China than Chinese companies in India. In terms of total investment, however, the two countries have probably put in the same amount of money in each other.

Second, most traders have historically been Indians; at the other end are Chinese public sector companies. It needed Indian banks in China to service this sector. Chinese banks in India would have no role to play.

Tomorrow is another story. "The banking sector is buzzing," says M. Arunachalam, until recently chairman of the Indian Chamber of Commerce, Hong Kong. You can be sure there is action ahead.

LEARNING TO MAKE FRIENDS



THE FUTURE BECKONS: Indian medical students in Suzhou in China

You can't teach an old dog new tricks. Translated, it means that, if you want to change mindsets, you have to catch them young. Indeed, that is what is happening in the India-China relationship.

Over the past year, some 50 Indian companies (there are no accurate numbers) must have started their China operations. In most cases, they initially send a point-man to explore the possibilities. The number of Indians moving to China as a result would not be more than 100. Add to this already existing Indian companies expanding operations, and you will end up with another 100. "We are hiring Chinese software engineers," says V. Rajanna, till recently the man in charge of TCS's China operations. "There is a high cost attached to getting people from India."

Contrast these numbers to the Indian students going to study medicine in Chinese colleges. "There are several thousand of us now," says Khuram Malik, a student at Suzhou Medical College, a short distance down the expressway from Shanghai. "And the numbers are increasing rapidly as the education becomes more acceptable in India."

The students don't have to register at the Indian embassy or consulate. So, once again, there is a dearth of validated numbers. But the consulate in Shanghai estimates the figure at "several thousand". M. Antony of the Indian Kitchen group, who runs canteens for Indians at several of these colleges, says the numbers are rapidly increasing as more students join and more colleges start specialised courses for Indians.

These specialised courses consist of getting teachers from India too. In fact, the representatives of these Chinese universities in India put together a team of students, a professor or two, a matron (nearly 50 per cent of the students are women), a cook and what have you. When everything is in place, they head for China. The course starts independently of the semesters but gets integrated later. What's the attraction of Suzhou, Xinxiang, Nanjing, Chongqing and their ilk? The answer is cost. The tab for the first year, including boarding and lodging, sundry expenses, the initial commission to the middleman and even the cost of the ticket back home to India, is around

\$6,000. By contrast, in India, if you don't qualify on merit, you may have to pay as much \$50,000 for admission alone. Everything else is extra.

There is a reason for this, of course. In India, market forces decide the pricing of private education, after the basic school levels which are free. Medicine is a lucrative profession. Private colleges charge much higher fees for medicine than for other courses. In China until recently, a carpenter would get the same pay as a doctor. The average student would rather learn carpentry than medicine. Thus, the demand for medical courses is actually less than that for carpentry.

But are these Chinese degrees recognised back home in India? According to the Medical Council of India, they are on a par with medical education in other foreign countries. The graduates will have to pass an examination in India before they are allowed to practice here. The first batch of students is yet to graduate from China (medical education is a very recent phenomenon). So the answers on the quality of the education will have to wait till then.



The next area is apparently engineering. Again, there is a demand supply imbalance in India. China has capacity to spare. "By the turn of the decade, there will be more than 10,000 Indian students in China," says Partha Sarathi Ganguli, CEO of the Kolkata-based SaraswatiOnline, one of the many companies that organises such medical packages.

As yet, there is no significant reverse flow. But the Saraswatis of the world are exploring that too. India has more than 1,000 b-schools, many of them desperate for students. China needs managers. The Great Lake Institute of Management in Chennai has started a course in Mandarin. The Indian School of Business in Hyderabad has tied up with Beijing's Cheung Kong Graduate School of Business for a student exchange programme. They evidently have their ear to the ground.

Geeta Mathur (name changed), another student at Suzhou, sums it up: "I came here to become a doctor and to see the world. I now know fluent Chinese. I have a lot of Chinese friends. Who knows, I may even settle down here. Our countries have so much in common."

REACHING FOR THE SKIES

Year	Import	Export	Total	% of India's trade
2000-01	1,502	831	1,333	2.45
2001-02	2,036	952	2,988	3.14
2002-03	2,792	1,975	4,767	4.18
2003-04	4,053	2,955	7,008	4.94
2004-05	6,769	5,344	12,113	6.39

Note: Total trade in 2005-06 was \$18.7 billion Source: Ministry of Commerce, Government of India

Shanghai. With the Hangzhou centre and the Microsoft JV in Beijing, "we have a very good footprint", he adds. Rajanna is now leaving China to take up a bigger assignment in the Tata Group.

Rajanna says that even a couple of years ago, if you saw an Indian-looking face in a supermarket, you would go up and say hello. A new arrival created a buzz in the community. No longer. "Even local Chinese companies have started hiring Indians," says Rajanna. "They are discovering ways to get over the communication problem."

MNCs in China have always had Indians in senior positions. For instance, Atul Singh, head of Coca-Cola in India, arrived here from a stint in China. Indian companies, of course, take some Indians along when they set up shop. "But it's very expensive," says Ashwin J. Laddhaa, head (international business) of Sterlite Optical Technologies. "Schooling at an international school costs a bomb. A bachelor life, with your family back in India, is not everybody's cup of tea."

Even then, the Indians are coming. M. Antony, a Macao-based businessman who runs a chain of Indian Kitchen restaurants all over China (see box "Mergers on the menu"), was recently in India to recruit at b-school campuses. He was successful.

"There are four of us here," says Pragnya Priyadarshini, global manager at Shang Hai Spices Centre, one of the companies in the Indian Kitchen group. "He made us an offer. China was too interesting to turn down. We just packed up and came."

Does she know Chinese? Not as yet. She moves around with Lilly, who interprets for her. But the language skills will come. What is important is that she has a b-school background. China lacks managers and the Priyadarshinis are more than welcome. In fact, there are several dozen Indian Institute of Management (IIM) alumni in China.

"China doesn't need engineers; IITians will not make waves here as they have in the US," says Naik of Reliance, who is both an engineer and an alumnus from IIM Bangalore. "But there are IIM grads everywhere."

Jagdish Acharya, regional vice-president (China, South Pacific and Australia) of Berger Paints, is from IIM Calcutta. He has recently moved base from Australia to Shanghai. He agrees that management is a critical input that China needs. And Indians are well placed to provide that.

Acharya's involvement with China is accidental. Asian Paints took over Berger internationally and Berger Paints (China) came along with that. It was a closed unit. It has been put partly on track again. But much more needs to be done. "Our company is different," explains Acharya. "Most Indian companies here are looking at the export market or sending their products back to India. It makes no sense to export paint. We have to compete in China

GROWING PRESENCE

Indian companies in China

Hexaware Technologies	TATA CONSULTANCY SERVICES
A. Birla Group	Larsen & Toubro
Aptech	M&M
Essel Propack	Reliance
Hexaware	SBI
ICICI	TCS

Chinese companies in India

BAOSTEEL	lenovo 联想
Baosteel	Konka
China Eastern	Lenovo
Haier	Shinco
Huawei	Sinosteel
Jianshu	ZTE

An indicative list. Source: www.indiansinchina.com

MERGERS ON THE MENU



WAY TO A MAN'S HEART: Taj Pavilion general manager M.H.Pastakia and Indian Kitchen group's managing director M.Antony with their wives

IF food were truly the way to a person's heart, Indians and Chinese should have been deeply enamoured of each other by now. Chinese food in India is, of course, ubiquitous; in the cities, chicken chow mein vies for popularity with tandoori chicken. It is a different matter that the Chinese would never recognise the fare that is passed off in India as Chinese food. It has been Indianised and mangled into something totally different.

Although purists and tourists have complained, the same is not really true of Indian food in China. The problem is different. There is often a mixture of cuisines. What's more, the sequencing of the courses can border on the absurd. You can get prawns with payasam (rice pudding) or kababs served after the kulfi. "We give our customers what they want," says Madhu Sudhan, who runs Tandoor restaurant in Beijing.

Others get indignant when accused of such culinary confusion. "I am bringing Indian food to China," says M. Antony, managing director of the Indian Kitchen group. "In that sense I am an ambassador of India. I can't serve some mish-mash."

Antony has a franchise network of more than 24 Indian Kitchen restaurants in China and is adding two more in the



next two months. "In Shanghai alone, six new Indian restaurants have started in the past six months," he says. There is obviously huge demand.

In Beijing, general manager of the Taj Pavilion, M.H. Pastakia, is also thinking expansion. But he prefers to own his outlets; Antony has opted for the franchise route. So he is proceeding carefully. But he too agrees that demand is growing rapidly.

The tribe is also spreading across China; they go where Indian companies go. At Hangzhou, TCS set up shop in 2002. Very soon there was the Haveli. Even in distant Xian — a two-hour flight from the coast towards Central China — you can get Indian food if you search for it. Indian tourists have the city on their

itinerary.

The obvious assumption would be that these restaurants serve mainly Indians. But that's not true. It starts off that way. "But Indians bring Chinese guests and they start enjoying the food," says Pastakia. "Soon they start coming on their own." At the Indian Kitchen outlets, only 10 per cent of the customers now are Indians. At Tandoor, where classical Indian dances are part of the ambience, there is an added attraction for the

Chinese.

If the restaurants are doing their bit to promote cultural confluence, some of the restaurateurs are doing even more. The two most successful Indian restaurants in China are Indian Kitchen and Taj Pavilion. By coincidence, both the promoters are married to ethnic Chinese. One reason may be that they have been in China longer than most other Indians. Pastakia first went to China in 1991 to run a restaurant styled Omar Khayyam. Antony set up Indian Kitchen in mainland China in 1992. (He had started operations in Macao several years earlier.) Antony has four strapping sons.

These are the joint ventures that will deliver better results than the corporate variety.



A SHOPPER'S HAVEN: Streets like these are a common sight

against several thousand Chinese companies." Asian Paints will decide very soon whether to continue in China or not. But Acharya says that the decision is likely to be more than a purely economic one. Adds he: "There are other reasons to be in China."

"If you are to be a global player, you have to be in China," says Mahesh J. Paleja, chief executive of Larsen & Toubro (Wuxi). The Indian engineering giant has just set up this unit, two hours by road from Shanghai. It is operating out of a temporary factory.

Larsen & Toubro is a recent entrant. There have been many more before it, all ambassadors for India. The Tatas are here, of course. So are the Birlas ("We have been very busy setting up capacity. It's complete now," says T.K. Chatterjee, president of Liaoning Birla Carbon, an Aditya Birla Group company.) Then there is Reliance, India's biggest private sector exporter. The Mahindras have a tractor JV at Nanchang. Videocon has two units located at Dongguan and Foshan, thanks to its takeover of the picture tube operations of Thomson SA of France. Infosys, Wipro, Satyam... The list goes on (see chart "Growing presence"). The banks have followed their customers and are also out in full force (see box "A bouquet of bankers").

One of the oldest Indian companies in the country is Orind Refractories, which

completed a decade a short while ago. "It's been quite an experience," says group managing director R. Mishra. Orind is practically a case study for Indian companies planning to enter China (see following story "Hot stuff in a cold climate"). With the China success under its belt, Orind is now heading back home. It has set up a new unit in Bhuj (Gujarat), bought another one from the Birlas, and is reviving a sick unit which belonged to another branch of the promoter family.

While Orind is returning home, are Chinese companies also coming to India in a big way? The common perception is that they are dragging their feet. Ambassador Surie, however, says that the reality is different. "That is not true," he explains. "They are going in the areas of their strengths. They are participating in a big way in infrastructure-related projects." (See Interview "The real rush is yet to come".)

Chinese companies are present in the consumer space too. But they are taking care to be not so visibly Chinese. One reason for this is that China is associated with the cheap goods that have swamped the market.

Haier had set a turnover target of \$65 million last year. Says T. K. Banerjee, President & CEO, Haier Appliances (India): "2005 was the very first year of our pan-India operations and we were quite successful in achieving our tar-

China doesn't need engineers, but it lacks managers. There are several IIM alumni in the country.

gets." The company has tied up with Whirlpool and Voltas and more strategic alliances are on the cards. "By 2010, Haier aims to be among the top three brands in the Indian market," says Banerjee. "The experience so far has been extremely exciting."

It's been just as fast paced for Sanjay Kumar, director (marketing), Huawei Telecommunications. Huawei's sales revenue has recorded a 186 per cent jump over the previous year; in the past three years, it has notched up a cumulative turnover of \$300 million. The company has already invested \$100 million and plans to pump in \$150 million more. Interestingly, it is setting up an R&D centre and campus in Bangalore where it plans to employ 2,000 Indian software engineers. What TCS can do in China, Huawei can replicate in India.

Huawei, strictly speaking, is not in the consumer space. China Eastern Airlines is. Chief representative in India Edward Zhu is just as upbeat. "We are planning to increase the number of flights and the destinations," he says. "India is a huge market. We are very keen on it." Adds Zu: "We have already hired 14 Indian airhostesses." The day the airhostesses arrived in Shanghai, it was a wonderful photo opportunity for the local media. The Shanghai Daily played it as a six-column picture across Page 1. Jostling for space were reports on the visit of Indian Defence Minister Pranab Mukherjee, who was in Beijing at that time. Even the editorial page had an analysis of India-China ties.

It was not just the Indian airhostesses who flew into Shanghai that day. They took with them the hearts of India. As Indian Kitchen franchisee John Shen put it: "If these are the fruits, I am certainly all for cooperation." 🍌