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Suspicion slowing India-China trade

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It was a perfect Delhi winter afternoon as we set out to meet Robert Lawrence Kuhn, an international corporate strategist. But what makes him different is that Kuhn is business and political advisor to Xi Jinping, President Elect of China, and has advised China's leadership for over two decades on economic and industrial policy.

On his second trip to India after a significant lag (2008), Kuhn is meeting India's top corporate honchos and political leaders, in an attempt to understand Indian economic environment and try to create a synergy between businesses of two countries.

Kuhn, who is also a global advisor to Ernst & Young, says that there are tremendous business prospects for the two Asian giants — India and China — to collaborate and work together in various sectors including infrastructure and energy. Kuhn shares his views with Business Line on how China is now adopting a more open approach for doing business. **Excerpts:**

How similar or different are India and China in doing business?

Business relationships between India and China will become increasingly more important as the 21st century develops. It can be competitive and challenging as good deal of economic development of the world will be increasingly dependent on this relationship.

I can speak quite authoritatively on China but can't do the same on India at present. There are concerns on both sides. As far as China is concerned, it can be differentiated in two ways — domestic (where provinces compete with each other) and international. China's international business is mostly done by the companies that are State-owned enterprises.

Today, the structure is complicated in China, as most of these companies though are publicly traded but still controlled by the Government. These companies operate like non-government entities when they go abroad. But, when abroad, there is a significant tendency to operate within a policy structure of the Government (like a State-owned entity), which has its own benefits and viability.

How do Chinese companies see India?

The relationship between



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ROBERT LAWRENCE KUHN, INTERNATIONAL CORPORATE STRATEGIST

India and China are recognised in both countries to be increasingly important. But when you talk to people honestly, there is quick concern and suspicion.

It is different (concerns) on each side. But it is kind of stereotypical of an approach that is both competitive in enormous sense and also reflects political tensions. So what I would like to do is to try and surmount those so that more business can be done together and the existing situation can be eased.

India and China are increasingly going to have a higher percentage of world's GDP and higher growth. Therefore, if they develop ways to figure out and work together, things will be better and everyone benefits. But the question is how you can do it, especially because there is a strong protectionism in both the countries and a strong sense of concerns.

What I think can help is working together in third-party regions like Africa, Latin America, West Asia, Eastern Europe.

So, what has changed today? Learning from its past experience, China has turned more realistic towards the world. Earlier, the Chinese approach was that it didn't matter which

country they were looking at (geo-political issues didn't matter), what mattered was doing business. Indian companies, however, still go with a market perspective like any other global company.

China has worked with lots of countries and has advantages in certain countries. Today, China is recognising that they are vulnerable to problematic regimes. When they invested in Libya, they had lot of losses. They are not immune to the problems of the world today.

Economics is a very simple master and the belief that whoever makes the lowest-cost product gets market advantage. Here, China has had an advantage. But now, in this also they have realised that it will not be an advantage for long, as the cost of production is also going up.

Do you think a third country such as resource-rich Afghanistan, from where the US is exiting, can be a potential place to work together?

I think that's a very good example of mutual competitiveness. India has the local understanding and China can bring its own expertise.

In Afghanistan, Indian companies have better understanding of the regional issues.

There can be greater co-operation between the two. China wants to be involved in natural resources, energy sector.

While doing business in India, what are the Chinese concerns?

Operating in India, they feel, is a disadvantage. They fear that they will always be second class. Trade between the two countries is increasing but it is not symmetrical as China imports more of raw materials and exports more of finished goods. This is not a sustainable development.

Do you think with the change in leadership in China, there will be a structural change in doing business? Is India on top of the agenda?

The new leadership of China is aware of the global markets. They are seeing their future.

The leadership is more concerned about internal issues like healthcare and housing. India at present is not high on agenda for them.

But can India be an investment destination for the Chinese, who have parked their surplus in the US?

The investment in the US has happened to mitigate the risk (purely because of the strength of the dollar). I think

there are big opportunities for developments between India and China. We have to see how it can be done while addressing the concerns on both sides.

Chinese banks have recently started extending project-specific loans to India companies (particularly in the power sector). Do you think this is sustainable?

This structure needs to be moved to the next level. A cheap loan does not mean long-term presence. We need to create more synergy and bring in more investments across sectors.

China has learnt its lessons by doing so in Africa. There are a number of Chinese companies that are looking for opportunities outside China.

How do you take it to next level? What are the sectors you are looking at?

I am a great believer in sector-specific projects. Today, Chinese companies do not appreciate the kind of opportunities that exist in India. It is not high on their agenda. Because of the political sensitivity, they don't think India is the best place for them to do business.

Indian and Chinese companies can strike a strategic partnership and figure out what works best for them. Sectors like telecom, auto, pharmaceuticals and IT. Besides, China is looking to restructure its economy and focus on biotech, clean technology.

How long do you think China could keep yuan artificially controlled? Is it affecting the bilateral trade?

The control of currency starts with a desire in the Central leadership to have a stronger economic control and the guiding principle behind this is stability. They have plans to gradually lessen the controls. Over the next 10 years, China's currency will move towards full convertibility. China wants yuan to become an international currency and a reserve currency.

Do you see the possibility of bilateral trade invoicing in yuan and rupee?

Invoicing in yuan is only 3 per cent. Yuan is being held offshore in Hong Kong. China wants to expand currency reach and also convert Shanghai into a financial hub, next to New York and London.

It wants its currency to be traded across the world. The Chinese prefer to make direct investments rather than channelising through different routes.