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No.E/551/11/2015-RTI

16 March, 2015

To:

Sh. Satyanarayan Prasad,
A.B. 431/2, Amarpuri, Nabikareem,
New Delhi - 110055

Subject: Information sought under Right to Information Act, 2005

Sir,

Please refer to your RTI application dated 09/02/2015 addressed to Central Public Information Officer, Prime Minister's Office, New Delhi, received by Ministry of External Affairs, RTI Cell on 27/02/2015.

2. The response to your query w.r.t China is as follows:

There is no information available with the CPIO w.r.t Point No. 1 of your query.

W.r.t. Point No. 2, enclosed pls find the list of agreements signed during the visit of Chinese President Xi Jinping to India from 17-19 September, 2014. Scanned copy of the agreement related to Commerce signed during this visit is enclosed.

Signed and scanned copies of all the agreements signed during the visit can be found at the following URL.

www.mea.gov.in/TreatyList.htm?1

3. If you are aggrieved with this reply, you may file an appeal to Shri Sujit Ghosh, Director (East Asia) & Appellate Authority, Ministry of External Affairs, South Block, New Delhi 110011, within a month from the date of receipt of this letter.

Yours faithfully,

Aniket G. Mandavane
(Aniket G Mandavane), IFS
US (China) & CPIO

CC to:

1. Smt. Meera Sisodia, US (RTI), MEA, New Delhi with reference to her OM No. RTI/551/490/2015 dated 04/03/2015.

Five-Year Development Program for Economic and Trade Cooperation between the People's Republic of China and the Republic of India

September 18, 2014

H.E. Mr. Gao Hucheng
Minister of Commerce
People's Republic of China

H.E. Mr. Nirmala Sitharaman
Minister of Commerce and Industry
Republic of India

Based on the consensus reached at the 9th Session of the China-India Joint Group on Economic Relations, Trade, Science and Technology (JEG) held in August 2012, and the *Work Program of China-India Economic and Trade Planning Cooperation* signed in May 2013, Ministry of Commerce of the People's Republic of China and Ministry of Commerce & Industry of the Republic of India have jointly developed the *Five-Year Development Program for Economic and Trade Cooperation* in order to lay down a medium term roadmap for promoting balanced and sustainable development of economic and trade relations between China and India, on the principle of equality and mutual benefit.

The Program is the result of study by relevant ministries and institutions of the two sides and includes overall appraisal of China-India relations, potentials and issues in bilateral trade and investment as well as cooperation in implementation of industrial parks, infrastructure projects etc.

This Program is intended to reduce the existing bilateral trade imbalance and to enhance and diversify bilateral cooperation in a sustainable direction. It is not legally binding on either side.

The Program will take effect after being signed by the representatives of the two sides, and shall be valid for a period of 5 years from the date of execution hereof.

Both sides will make full use of JEG and other mechanisms, and strive to implement this Program.

The Program is signed on 18th September, 2014 in New Delhi in duplicate in English, both copies being equally authentic.



H.E. Ms. Nirmala Sitharaman
Minister of Commerce and Industry
Republic of India



H.E. Mr. Gao Hucheng
Minister of Commerce
People's Republic of China

Preface

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H.E. Ms. Nirmala Sitharaman
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2. PRESENT SITUATION AND POTENTIAL OF BILATERAL TRADE

2.1 Present Situation of Bilateral Trade

2.1.1 *Bilateral trade in goods*

China and India are important trade partners. In the year 2000, bilateral trade was valued at USD 2.91 billion and has grown rapidly since then at an average annual rate of 25%. According to the statistics from China Customs, bilateral trade amounted to USD 65.47 billion in the year 2013, out of which China's exports to India valued USD 48.44 billion and China's imports from India valued USD 17.03 billion. According to the statistics from the Indian authorities, in 2013, the trade volume between India and China stood at USD 65.82 billion, out of which India's exports to China stood at USD 14.47 billion and India's imports from China were USD 51.34 billion.

In terms of product structure, China's major exports to India are manufactured goods including mechanical and electrical products, chemical products, and base metals and related products. According to statistics from the Indian authorities, principal commodities of import from China during the year 2013-14 included electronic goods, machinery, organic chemicals, transport equipment and fertilizers. Chinese products find a market in India on account of their competitive prices and growing domestic demand. On the other hand, China has a high import demand for raw materials and primary products as Chinese industries face a resource crunch on account of rapid industrialization and urbanization in China. Therefore, at present, India's exports to China mainly comprise raw materials, primary products and intermediate products mainly iron ore, copper, mineral, cotton etc. During the year 2013-14, export of non-ferrous metals, cotton, iron ore and petroleum constituted nearly 50% of Indian exports to China.

2.1.2 *Bilateral trade in services*

Trade in services between China and India started relatively late and has seen rapid growth in recent years with a growth in China's deficit against India in services trade. There is great potential for growth of trade in services between China and India. India has emerged as a major service exporting country and services contribute to 59.9% of the gross domestic product (GDP) of the country, whereas India's secondary and

primary sectors account for 26.1% and 13.9% of GDP respectively. On the other hand, China has a dominant secondary sector which accounts for 45% of GDP and the tertiary and primary sectors represent 40% and 10% of GDP respectively. As per Chinese statistics, India's service exports to China focus mainly on commercial services, while China's service exports to India focus mainly on the three traditional service fields of tourism, transport services and construction services. Under the aegis of the 9th session of India-China Joint Group on Economic Relations, Trade, Science & Technology held on August 27, 2013, a Joint Working Group (JWG) on 'Trade in Services' was constituted and entrusted with the task of enforcing mutual cooperation between the two countries for the development of bilateral trade in services. The 1st meeting of the JWG was held on December 13, 2013 and 4 key sectors were identified for promoting bilateral trade in services *viz.* software and IT services, IT enabled services, audio visual and entertainment, and tourism and tourism related services.

India has a significant advantage in the field of trade in services particularly in the information technology (IT) and information technology enabled services (ITeS) sector. India has accumulated more than 20 years of experience in IT services outsourcing and established its position as the world's largest outsourcing destination. Indian IT industry has set up over 560 global distribution centres and serves 85% of the Fortune 500 enterprises and 20 of the top global financial institutions. Chinese statistics reveal that India occupies a 65% share of the global software outsourcing market and a 46% share of the global outsourcing market of other services. China also has ambitious plans to become a global business and IT services hub and is taking aggressive steps to drive growth in the IT sector. India and China recognize the strong potential for cooperation and are keen on leveraging each other's strengths in this sector. In furtherance of this understanding, both countries signed a Memorandum of Understanding (MOU) in March 2014 for enhancing cooperation in the fields of software applications and services, e-commerce and e-governance and collaborating in the field of emerging technologies.

2.2 Strategy Objectives and Policy Suggestions to Promote Bilateral Trade Cooperation

India and China acknowledge that the overall objective of trade cooperation is to achieve a balanced and sustainable level of bilateral trade. China has a favourable balance of trade in goods, while India has an unfavourable balance of trade in goods.

According to Indian statistics, with an increase in the bilateral trade over the last decade, the trade imbalance against India also increased exponentially from USD 18.65 billion in 2009 to USD 36.86 billion in 2013.

It is recognized that trade deficit with China is a matter of high concern for India. Against this background and in the spirit of mutual benefit, India and China shall endeavour to strengthen cooperation and gradually achieve bilateral trade balance over the next 5 years. India and China shall further endeavour to increase bilateral trade in services particularly IT and ITeS services in the next 5 years.

In order to bridge the bilateral trade deficit over the next 5 years, there is an urgent need for India and China to adopt measures for improving India's export capacity and competitiveness and expedite action on resolution of market access issues outlined below:

2.2.1 Market access for Indian bovine meat, rapeseed meal and oil meals in China

India has consistently sought market access from China for certain products where it has global competitiveness for exports and the issue of market access for Indian bovine meat, rapeseed meal and oil meals in China merits urgent attention as it would help ease the trade deficit to an extent. An MOU for the export of buffalo meat was signed by Agricultural and Processed Food Products Export Development Authority (APEDA) of India and General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of China in May, 2013.

As regards Indian rapeseed meal and oil meals, an MOU on trade and safety of feed and feed ingredients was signed between the Export Inspection Council of India (EIC) and AQSIQ in May, 2013 and the terms of a "Protocol of Health and Safety Regulations on Importing Indian Rapeseed Meal" were negotiated between EIC and AQSIQ in July, 2014. Both countries shall sign the "Protocol of Health and Safety Regulations on Importing Indian Rapeseed Meal" at the earliest.

2.2.2 Market access for Indian basmati and non-basmati rice in China

India is a leading producer and exporter of rice including basmati rice and other variants of rice (commonly referred to as non-basmati rice). On the other hand, in

recent years, China has emerged as one of the world's largest importer of rice. In November 2006, India and China signed a protocol for exporting of rice from India to China. Following the protocol, in order to ensure that Indian basmati rice is free from quarantine pests, a standard operating procedure (SOP) setting out the monitoring and control measures for quarantine pests was agreed upon by Indian and Chinese authorities in the year 2009. Consequently, China provided market access for Indian basmati rice in the year 2012. However, despite the provision of market access, Indian exporters face practical bottlenecks and have reported that the authorities in Shanghai are not aware of the quarantine clearance given by the Chinese government for import of Indian basmati rice. Further, enhanced cooperation in export of Indian non-basmati rice possesses strong potential for mutually beneficial trade between India and China. Given that Indian non-basmati rice producers follow the same monitoring and quality control standards as agreed under the SOP, China shall endeavour to promote import of rice, both basmati and non-basmati varieties, from India into China.

2.2.3 *Market access for Indian fruits and vegetables in China*

Pursuant to the bilateral agreements executed with China in 2000 and the MOU on phytosanitary measures executed with China in 2002, the Indian government had requested market access in China for 17 varieties of Indian fruits and vegetables. Upon conducting a risk analysis, the Chinese authorities provided market access for mangoes in 2004 and for grapes and bitter gourd in 2005. The Indian authorities have identified 5 fruits and vegetables (out of the remaining 14 fruits and vegetables for which market access is pending) and have requested the Chinese authorities to provide market access for these 5 products on priority. Indian side expressed that Chinese side shall make best endeavours to expedite market access for the identified Indian fruits and vegetables in China.

2.2.4 *Deepening bilateral trade cooperation*

India looks forward to strengthening cooperation with China and deepening integration in global value chains. Moving in conformity with new trends in international trade, both India and China stand to benefit from establishment of supply and production chain linkages between the two economies. China may facilitate the creation of such linkages through policy initiatives which promote imports from India of intermediate goods such as Indian textiles, casein and

caseinates, diamonds and oil seeds. These Indian intermediate products are highly regarded for their global export competitiveness and present a win-win potential for bilateral trade. Exports of these products would enable China to strengthen its position in the global and regional value chains in the food processing industry, jewellery and textile and garment industry. In addition, this would help reduce the bilateral trade deficit over the next 5 years.

India currently permits imports from China of goods (including electrical parts, boilers, machinery and mechanical appliances) to the tune of USD 12 billion at 0% or less than 5% duty.

Indian textiles and handicrafts are popular worldwide for excellent craftsmanship. India is one of the largest exporters of textiles and recorded an export value of over USD 30 billion during the year 2013-14. In the gems and jewellery sector, India has emerged as the world's largest manufacturing centre of cut and polished diamonds and obtained global recognition for its price competitiveness and skilled labour. As regards oilseeds, India is the largest exporter of sesame seeds in the world and India's exports account for a 19.8% share of global sesame seed exports.

The Indian authorities have requested China to consider lowering tariffs and facilitating imports of the above mentioned products from India. Indian authorities believe that it is important for China to consider reducing tariffs on Indian textiles and handmade carpets, casein and caseinates, diamonds and oil seeds in the spirit of mutual cooperation and reciprocity. In this regard, the Chinese authorities have suggested that the discussion on tariff reduction for the above mentioned products can be taken up under the framework of the *Asia-Pacific Trade Agreement*. Therefore, both countries shall expedite discussion and endeavour to favourably address these issues under the framework of *Asia-Pacific Trade Agreement*.

2.2.5 Strengthen cooperation to promote export of Indian pharmaceuticals to China

India has attained global recognition for the manufacture of high quality, affordable generic medicines and is fast becoming a hub for contract research, bio-technology, clinical trials, and clinical data management. Indian pharmaceutical industry is the fourth largest in the world in terms of production volume and exports during the year 2013-14 were more than USD 15 billion. India has approximately 1400 WHO cGMP

approved pharmaceutical plants and is a major supplier of pharmaceutical products to international agencies as well as diverse markets including the United States of America, European Union and Africa.

Enhanced cooperation in the area of pharmaceuticals trade would be to the mutual benefit of both countries. A strong partnership in export of formulations from India to China would go a long way in catering to the Chinese public healthcare programme. Indian pharmaceutical companies can leverage their expertise for providing innovative generic drug formulations, late stage intermediaries and high end active pharmaceutical ingredients (APIs) for the USD 124 billion Chinese public healthcare programme as well as to meet the requirements of the Chinese healthcare industry.

The strength of China's pharmaceutical industry lies in hardware and equipment. However, China seeks to fill gaps in aspects such as research and development, world-class national laboratories and excellent clinical trial centers. Besides, Chinese enterprises lack experience in international operations. The pharmaceutical sector should become one of the priorities in which both sides strengthen economic and trade cooperation.

With an aim to promote bilateral trade in the field of pharmaceuticals, both sides are working towards finalization of a work plan on drug administration and cooperation between China Food and Drug Administration and Ministry of Health and Family Welfare, Government of India. Both countries shall endeavor to finalize the work plan at the earliest and facilitate greater market access for Indian pharmaceuticals in China.

2.2.6 Strengthen cooperation to promote export of Indian IT services to China

China and India are strongly complementary to each other in terms of electronic information software and hardware industries and service fields, enjoying a broad space for cooperation. The rapid development of the Indian IT and ITeS industry has transformed India's image on the global platform. With outsourcing experience spanning more than 20 years, the Indian IT/BPO industry has presence in more than 70 countries and delivers services in more than 35 languages. In view of India's experience and competence in software outsourcing, a strong partnership between Chinese and Indian IT industry would help in positioning China as an attractive off-shoring destination. China's strength in hardware when combined with India's

extensive experience and competence in software offers a strong proposition for embedded software industry on a global level.

Indian IT companies have significant experience in servicing clients across diverse geographies and verticals through their unique Global Network Delivery Model (GNDM) at globally competitive rates. An enhanced partnership with India in the IT sector will help in improving the competitiveness of Chinese companies and transforming their operations through innovative outsourcing solutions. The Indian IT Industry has been focusing on reconfiguring its resources to be socially and economically efficient and provide services tailored to specific jurisdictional requirements. The Indian IT-BPO industry employs approximately 15,000 Chinese citizens in China. A strong IT partnership with India will thus help in improving the employment opportunities of Chinese students. With their well-established global presence, Indian IT companies are well positioned to service and partner with Chinese IT companies, especially Chinese State Owned Enterprises (SOE) in a mutually beneficial relationship.

With a view to enhance trade and economic cooperation in the IT and ITeS sector, the Ministry of Communications and Information Technology, Government of India and Ministry of Industry and Information Technology, China signed an MOU in March, 2014. Both countries shall endeavour to implement the terms of the MOU at the earliest and facilitate bilateral trade in the IT and ITeS sector.

2.2.7 Strengthen bilateral cooperation in the tourism sector

China and India are major emerging tourist markets. With the economies of both China and India developing rapidly and with the improvement in people's standards of living, the number of Chinese and Indians travelling abroad, including Chinese to India and Indians to China, has been surging. In 2013, China had 98 million tourists going abroad out of which 0.14 million Chinese tourists travelled to India and India had 15 million tourists going abroad. Chinese statistics reveal that Chinese tourists travelling to India and Indian tourists travelling to China totalled 820,000 in the year 2013.

In the first meeting of the JWG on 'Trade in Services' held on December 13, 2013, India and China identified tourism as a key service sector and recognized that there is immense potential for cooperation in the tourism sector. In the same meeting, both

sides discussed the prospect of promoting bilateral investments in the tourism and hospitality sector in each other's countries. With a view to expand cooperation in the tourism sector, in 2013, China launched 'Beautiful China' tourist promotion activities in India, and India began its 'Incredible India' marketing campaign in China. Each year, China invites Indian exhibitors and purchasers to participate in the China International Travel Mart (CITM), sends delegations to attend the Outbound Travel Mart (OTM) in India, and invites 100 Indian travel businessmen and media journalists to visit China. It is envisaged that such tourist and business promotion events would contribute towards enhancing the understanding of India and the Indian people in China and visa versa.

In the spirit of fostering cultural relations and promoting services trade in tourism, the Indian and Chinese authorities designated 2014 as the year of friendship and exchange for India and China'. Both countries have planned a series of activities and exchanges to be held during the course of the year, including high-level visits, bilateral dialogues, and defence cooperation, engagements in the fields of trade and economy, and cultural, educational and people-to-people contacts. Several important exchanges have already been held earlier this year, including the 'Glimpses of India Festival' in 12 cities in China. The 'Glimpses of India Festival' jointly organized by the Indian and Chinese authorities was well received and featured an array of Indian performing arts, exhibitions of modern Indian art and calligraphy, visual and photographic exhibitions on Buddhist heritage of India and links with China, scientific achievements of India, as well as events involving eminent Indian and Chinese scholars and writers. India also participated in the China International Fair for Trade in Services (CIFTIS) held in June, 2014. China and India demonstrate strong potential for cooperation in tourism. It shall be endeavoured to achieve a higher volume of tourists travelling to each other's country over the next 5 years. Marking the year 2014 for bilateral friendship and exchange is a positive step in this direction.

With a view to expand tourism cooperation it has been agreed to designate 2015 as the "Visit India Year in China" and "Visit China Year in India" in 2016. China also agreed to favourably consider a proposal from the Indian side for the joint development of a Xuanzang Circuit in India to promote tourism and people-to-people linkages inspired by Xuanzang's historical travels, keeping in view his significant contribution to promoting deep contacts between the two countries. India and China may also strengthen cooperation for publishing tourism related literature in the

Chinese language and facilitate availability of recorded audio guides in the Chinese language at all major Indian tourist sites. Training of Indian tour guides in the Chinese language is another policy initiative which merits consideration. Given the visual impact of films and audio products, shooting of films in Chinese and Indian cities would go a long way in promoting China and India as attractive tourist destinations. Further, with a view to increase services trade in tourism, it is suggested that greater involvement of the Chinese and Indian governments in providing travel advisories and familiarizing Chinese and Indian tourists about the tourist destinations in each other's countries would yield significant benefits. In addition to the above, the Indian government shall endeavour to implement policies that encourage Chinese tourists to travel to and within India.

2.2.8 Strengthen bilateral cooperation for resolution of trade disputes

India and China shall strengthen cooperation for creation of a robust dispute resolution mechanism to address disputes arising between commercial entities in the two countries. A bilateral dispute resolution mechanism would facilitate speedy redressal of grievances of exporters and importers in the two countries on matters pertaining to fraud and intellectual property infringement. On a bilateral level, this mechanism of dispute resolution would foster a relationship of mutual trust and partnership between both the governments and their industries.

3. PRESENT SITUATION AND POTENTIAL OF BILATERAL INVESTMENT COOPERATION

3.1 Present Situation of Bilateral Investment Cooperation

There has been an increase in Chinese FDI inflows into India since the year 2000. According to Chinese statistics, up to the end of 2013, Chinese cumulative investment in India amounted to USD 2.45 billion. According to the statistics maintained by the Department of Industrial Promotion and Policy (DIPP), Ministry of Commerce and Industry, Government of India, China ranked 28th among countries infusing FDI in India. Further, statistics from the DIPP and the Reserve Bank of India reveal that the cumulative FDI inflows from China in India during the period from April, 2000 to June, 2014 were to the tune of USD 411 million, which represents a share of 0.18% of the total FDI inflows into India.

Currently, China's investment in India is a small share of its overall foreign investment and involves only a few industries. Major Indian industries which have received FDI from China are metallurgical, automobile, industrial machinery, services and power. According to statistics of the DIPP, Indian metallurgical industry has received the highest percentage of FDI from China (*i.e.*, 33%) and Indian automobile sector has been the recipient of 25% FDI from China. Indian industrial machinery, power and services sectors account for 7%, 4% and 7% FDI from China respectively. On the other hand, as per Chinese statistics, India's investment inflows in China stood at USD 88.05 million in the year 2008 and were valued at USD 27.05 million in the year 2013. Key Chinese industries which have received investment from India are software development, IT services, pharmaceuticals, steel, auto parts, beverages, and shipping agency.

3.2 Potential of Bilateral Investment Cooperation

There are broad prospects for bilateral investment cooperation between China and India given that both countries are fast-growing economies with enormous market potential and complementary industrial structures. In their respective 5 year plans, China has introduced a series of preferential policies on sectors such as IT, medicine and pharmaceutical, and India has developed a range of measures aimed at promoting infrastructure investment and manufacturing development. India has also progressively liberalized its FDI regime. India is keen on leveraging Chinese investment in development of industrial parks in India. It is envisaged that industrial parks would provide a platform for cluster type development of enterprises of both countries. Such industrial clusters are aimed at building a production network with a strong ability to provide auxiliary products and have the potential to transform and upgrade related industries.

In this connection, an MOU on Cooperation on Industrial Parks in India was signed between the two countries in June, 2014 with the objective of strengthening cooperation and encouraging Chinese enterprises to enhance their engagement in development of industrial parks in India. These industrial parks will enjoy the support that the Chinese government grants to overseas economic and trade cooperation zones as well as benefits under the prevailing policy frameworks in India, including the special economic zones (SEZ), and national investment and manufacturing zones (NIMZ) in India. The development of industrial parks would be based on the principles of 'government facilitation, enterprises as major players, market operation'.

India and China shall also endeavour to explore the feasibility of arriving at a memorandum or work framework on infrastructure investment by Chinese companies in India. Enhanced investment cooperation between the two countries would help in improving the international competitiveness of Chinese and Indian enterprises.

3.3 Strategy Objective and Policy Suggestions to Promote Investment Cooperation

India and China shall strengthen cooperation for increasing investment inflows from China to India to the tune of USD 20 billion. In order to achieve this objective, India and China shall strive to maintain a transparent, stable and investor friendly business environment and policy framework on an ongoing basis and endeavour to enhance cooperation for attracting more FDI inflows from China in India in the areas outlined below:

3.3.1 *Priority sectors for investment in India*

India and China shall strengthen cooperation to promote investment from Chinese firms in India's infrastructure sector and advance the development of industrial parks in India. In this regard, China may encourage Chinese enterprises to invest in India under the FDI route and through the capital markets (including the newly established infrastructure debt funds and trust funds).

In the manufacturing space, there are significant opportunities for Chinese investment in machinery, telecom equipment, hardware, electronics, communications, home appliances, autos and parts, pharmaceuticals, textiles, plastics and chemical engineering industries. The two countries share a strong potential for market cooperation in the field of electronics, radio and mobile communication as China has state-of-the-art technologies for digital TV and radio and mobile communications as well as remarkable advantages in costs for related system construction. India and China may also extend cooperation for investment in the power sector given that China has rich experience in power generation and power grids and has obtained global recognition for equipment manufacturing. Further, from the perspective of enhancing India's capacity in food processing and export of agricultural products, India and China may cooperate for increasing investment from China in the food processing machinery, logistics and warehousing equipment sectors in India.

3.3.2 Strengthen the role of various chambers of commerce involved in trade and investment cooperation between China and India

India and China shall endeavour to increase the role of various chambers of commerce with a view to promote trade and investment cooperation between the two countries and act as a bridge between governments and enterprises. An increase in the role of chambers of commerce in trade and investment cooperation between China and India would bring into full play their role as a bridge between governments and enterprises and as a mouthpiece for overseas investment enterprises, and help to effectively maintain the interests of enterprises and create a sound local business environment.

3.3.3 Encourage enterprises from both countries to fulfil corporate social responsibility

The enterprises from both countries are encouraged to incorporate corporate social responsibility (CSR) in their corporate development strategies in accordance with country specific laws and create a sound framework for their implementation.

3.3.4 Encourage Chinese and Indian enterprises to establish R&D centres in each other's countries

Both countries recognize the benefits of encouraging Chinese and Indian enterprises to establish R&D centres in each other's countries.

3.3.5 Encourage Chinese and Indian enterprises to organize investment and trade fairs

It is recognized that investment and trade fairs will facilitate cooperation by providing a platform for interaction of Chinese and Indian enterprises and promote exchanges between enterprises and local governments. In order to increase awareness about the Indian investment framework and business environment amongst Chinese enterprises, India shall endeavour to stage Indian fairs and festivals in various cities in China on a regular basis.

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3.3.6 *Improve law enforcement for better intellectual property protection*

Both sides will endeavour to provide appropriate protection to intellectual property rights consistent with their respective laws, rules and regulations and other international agreements to which they are committed.

4. PRESENT SITUATION AND POTENTIAL OF BILATERAL PROJECT CONTRACTING COOPERATION

China's project contracts in India have developed rapidly since the year 2004. Chinese statistics reveal that China contracted projects in India to the tune of USD 237 million in the year 2004 and USD 2.27 billion in the year 2013. As per statistics maintained by the Indian government, the cumulative value of Chinese engineering project contracts in India until February 2013 was USD 60.21 billion. Chinese project contracts are concentrated in the fields of infrastructure construction including road and bridge, power projects including EPC and supply of heavy equipment, industrial project pertaining to iron and steel, boiler, turbine and palletisation plants and telecommunications.

Infrastructure plays a very important role in the economic development of a country. Developed infrastructure can not only directly spur demand and rapidly increase employment in the short term, but effectively lower enterprises' costs for production, transportation and transaction, improve productivity of private capital, and expand supply in the long term. The Indian government recognizes that considerable amount of foreign investment is required for infrastructure development in India and has included infrastructure construction as a priority in its "12th Five-Year" Plan (2012-2017), increasing the size of investment from USD 500 billion in its "11th Five-Year" Plan (2007-2012) to USD 1.2 trillion, or 8-8.5% of GDP. The next few years will witness a surge in infrastructure construction in India signifying an opportunity for China to seek engineering contracts in India.

India's enormous demands for infrastructure construction and open development policies provide a significant opportunity for Chinese project contracting enterprises to tap the Indian projects market by participating in the open, competitive bidding process. A significant amount of such investment may be made by Chinese enterprises in various forms of public private partnership. In the field of infrastructure

construction, Chinese project contracting companies have teams consisting of professionals with vast expertise in infrastructure construction and overseas project contracts. India has consistently encouraged participation of Chinese companies that meet the eligibility criteria to participate in engineering contracts and/or infrastructure development projects. In addition, to seek funds needed for infrastructure construction, the Indian government encourages foreign countries and private investors to participate in infrastructure development including through the public-private partnership model. Several infrastructure debt funds and investment trusts have been set up to attract investments for financing infrastructure. China could avail itself of the new investment opportunities announced in the Union Budget of India for the financial year 2014-15.

5. PRESENT SITUATION AND POTENTIAL OF BILATERAL FINANCIAL COOPERATION

An issue which both Chinese and Indian enterprises face at present is the limited number of branches of a bank of one country that operate in the other country. Some Indian commercial banks have set up branches or offices in mainland China. For instance, State Bank of India set up an office in Shanghai in 1998 and made it a branch in 2004, and Bank of India opened a branch in Shenzhen in March 2007. Bank of Baroda and Canara Bank have also set up branches in China. Separately, Allahabad Bank, Axis Bank, Bank of India, ICICI Bank, Indian Overseas Bank, Punjab National Bank and Union Bank of India have set up representative offices in China. In India, only the Mumbai Branch of Industrial and Commercial Bank of China (ICBC) has been granted a license, and China Development Bank has an Indian work group. The ICBC Mumbai Branch officially opened in September 2011, which is the first and currently the sole branch of a bank of mainland China in the Indian market.

In order to promote financial cooperation between China and India, both countries shall explore possibilities of establishing new bank branches in their territories within the regulatory framework of the two countries. Increase in the number of commercial branches would facilitate settlements, financing and other financial services for enterprises on both sides. Regular dialogues and exchanges between the central banks and other stakeholders in both countries would help develop financial instruments for hedging exchange rate risk and establish a risk evaluation system regarding overseas investment. Further, India and China shall endeavor to enhance cooperation for improving credit guarantee systems intended for multinational business operations'

system regarding overseas investment by enterprises and broaden project financing channels.

6. CONCLUDING REMARKS

China and India are two major emerging economies of the world. Over the past decade, bilateral trade between China and India has accelerated steadily and China has emerged as India's largest trading partner while India is China's 18th largest trading partner. With an increase in bilateral trade, India's trade deficit with China has also increased exponentially over past few years and has now become a matter of concern for India. The two countries shall take joint measures to cope with the present trade imbalance, improve India's export capacity and competitiveness, facilitate market access for Indian products in China and strengthen trade and economic cooperation across sectors including the pharmaceutical sector, IT and ITeS sector. Both countries recognize that bilateral trade imbalance is not conducive to long term, sustainable and harmonious development of economic cooperation between the two countries. Therefore, reduction of bilateral trade imbalance over the next 5 years has been identified as the objective of trade and economic cooperation between India and China.

The two sides shall strengthen investment cooperation in their advantageous and complementary industries. In the manufacturing sector, they may strengthen cooperation in such fields as machinery, electronics, communications, home appliances, autos and parts, pharmacy, pharmaceuticals, textiles, plastics, and chemical engineering. The central focus of the Indian government is infrastructure upgradation and development of domestic manufacturing sector. India is keen on partnering with Chinese enterprises and seeking their investment, expertise and participation for development of industrial parks and manufacturing zones in India. Positive policy measures by the Indian government have created abundant opportunities for investment from Chinese enterprises into India. Cooperation between India and China should be enhanced for facilitating investments from China into India and ensuring that the target of USD 20 billion for investment flows from China into India is met in the course of 5 years.

India and China shall strive to maintain a transparent, stable and investor friendly business environment and policy framework on an ongoing basis. In addition, both countries shall: strengthen the role of chambers of commerce in bilateral trade and