**5.2 Details**

## (xii) GUJARAT CHAMBER OF COMMERCE & INDUSTRY

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| ***Organisation*** | : | Gujarat Chamber of Commerce & Industry |
| ***Objective*** | : | Business Promotion Delegation to study the various aspects related to industrial and export development in China |
| ***Date*** | : | 13-29 September 2001 |
| ***Country*** | : | China: Hong Kong |

***Summary Report***

During the past 23 years, China has managed to increase its per capita income by a multiple of 7 and GDP by 4 times. This country proposes to double its GDP, which has average of 9.6 per cent growth over the 20 years and presently is the seventh highest in the world at present. The urban incomes in China have increased by 360 per cent over past 20 years, whereas rural incomes by 480 per cent. This happened because economic reforms in China started in 1978.

The advantages offered by China have attracted about 700 MNCs to establish roots in China. As a matter of fact, the core advantages as mentioned below have been responsible for attracting large FDI and MNCs are to be the partners in the rapid progress of China. Also economic environment for establishment of industries in China is not only conducive but also favourable due to active support of Government as shown below.

- The land for industries is given by Government of China free of cost.
- In majority cases plant and machinery is also given by Government free of cost and hence they do not have to take into account any depreciation in their balance sheet. If any machine goes out of order, it is replaced by government free of cost.
- No direct subsidy or cash incentives are given by Chinese government to industries

- Approval for industries with investment up to US$30 million is accorded within 15 days. Once you apply and negotiate for setting up of a unit, you are given one person from the province head to help you in all matters. The person will take your signature as an when required and he will move around in different departments to obtain approval on behalf of you, as majority of administrative work is carried out in Chinese language.
- In industrial development, the provincial Governor-Mayor is the key person in taking important policy decisions. Everything is negotiable on table including power rates and labour cost apart from other aspects. They negotiate on table with all officials concerned, so there is no specific written or laid down policy; it depends upon your negotiation skill and their keenness to have industrial units in their province.
- It is a policy of the Chinese government to develop Special Economic Zone in and around every city of the country where income tax incentives are given to the units.

Apart from these facilities, as stated above, there is taxation part, which provide a platform for development of manufacturing capacities. These are as given below.

- ***Turnover Tax:*** This consists of value-added tax, consumption tax and business tax, and three kinds in all. These taxes are collected according to the sales income or business income obtained by the taxpayers in the process of production, circulation or service.
- ***Income Tax:*** This includes enterprise income tax (application to domestic enterprises such as State owned enterprises, collective enterprises, private enterprises, joint enterprises and shareholding enterprises), foreign-invested enterprises and foreign enterprises income tax, and individual income tax three kinds in all.

These taxes are collected according to the profit or income obtained by producers, managers and individuals. Viewed from the point of view of tax structure, direct tax accounts for about 29 per cent of the total tax revenue where as indirect tax (turnover tax) amounts to 71 per cent of the total tax revenue (this includes VAT, consumption tax, industrial & agricultural tax & customer duty) value added tax share is 42.3 per cent while income tax on enterprises & individual is 16.2 per cent. The value-added tax ranges around 17 per cent. There is no tax like Octroi and the commodity movement is totally free of any taxes. Only toll tax has to be paid for movement on the roads.

Rate of electricity in general is around Rs 1.80 per unit but for industrial use the rate is negotiable. There is no power cut on electricity supplied for industrial use.

The rate of interest on loans availed is 2.5 per cent to 5 per cent. However for IT sector developed by private sector, the rate of interest is 3 to 5 per cent.

In China, there is a labour law but implementation part is not strict. You can relieve worker at any time. There is “Hire & Fire” policy. Labour force on contract basis is permissible. Even in government-run companies, 50 per cent of labour force is on contractual basis.

The rate of wages is much lower and efficiency is very high compared to our labourers. Since wages are linked with productivity, the labour productivity in the manufacturing sector is higher in China *vis-à-vis* Indian ranging between 7 per cent and 180 per cent, the highest being in food products, leather and fur products.

The Chinese do no observe international arbitration rules & regulations. In disputes related to trade & industry or international trade, they follow their own arbitration system.

In 1999-2000, the FDI inflows in China was US$45 billion out of which about 76 per cent was utilised where as in India FDI inflows were of the order of US$ 2.16 billion out of which only 42 per cent have been utilised. China has attracted total of US$700 billion inflows of FDI until now and it has received US$40 billion investment this year and majority of them in SEZs. It was also learnt that in China there are 3.70 lakhs investment proposals out of which 2 lakh proposals are under implementation.

Emphasis is placed on encouraging foreign investment flow to agriculture, high-and new-tech industries, basic industries, infrastructure, the environmental protection industry and export-led industries. Positive efforts are being made to guide investment flow to the technological upgrading of traditional industries and old industrial production centres. Work continues to be done to expand labour-intensive projects complying with the industrial policy. Projects that jeopardize national security or damage social and public interests, pollute the environment and disrupt the ecology are strictly prohibited.

Efforts to promote step by step opening of service trade to the outside world; expand the scale of experiments in opening up in domestic commerce, foreign trade and travel agencies; and to open up financial and telecommunications sectors in a step-by-step and controlled manner, while establishing a perfect and effecting supervisory mechanism is underway.

The following emerging areas for investment and exports to China are:

(a) Agricultural items including agro-process food, tinned food, fresh fruits, rice, wheat etc.
(b) Building materials and other building related items
(c) Information technology software
(d) Raw cotton
(e) Minerals
(f) Marine products
(g) Gem & jewellery
(h) Chemicals, dyes and intermediates
(i) Iron ore
(j) Service sector in WTO regime

***Members of Delegation***

1. Mr. Kalyan J. Shah, President, Gujarat Chamber of Commerce & Industry, Shri Ambica Mills-Gujarat Chamber Building, P.O. Box No. 4045, Ashram Road, Ahmedabad-380 009.
*Leader of the Delegation*

2. Mr. Trilok R. Parikh, Hon. Secretary, Gujarat Chamber of Commerce & Industry, P.O. Box No. 4045, Ashram Road, Ahmedabad-380 009.

3. Thirty-three members representing trade and industry of Gujarat.

***Conclusion***

China's industrial development has generated keen interest amongst Indian business community about their strategy of growth. The core advantages that Chinese industries have, i.e. low taxes, flexible labour laws, high labour productivity, low priced power, sizeable buildup of manufacturing capacity, economies of scale, a world class infrastructures, free from strikes, low inflation & higher economic growth and enhanced competitiveness. Most importantly China has political system to committed to reforms. Competitiveness of Chinese economy is increasing at the rate of 5 per cent.

There are joint venture possibilities for Indian manufacturers in chemicals, bicycles, dry cell batteries, motorbikes, and electronic items.