



Sino-Indian Strategic Economic Dialogue Treading a Cautious Corridor

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Sino-Indian economic relations have continued to burgeon despite occasional political or diplomatic rumblings on both sides. Not only has the trade volume jumped from US\$ 200 million in 1988 to US\$ 61.7 billion in 2010, more commendably both economies have managed to stave off the destabilization resulting from the 2008 global financial crisis. Together, the two countries account for one-fifth of the global economy and are projected to represent one-third of the world's income by 2025. Yet, most analysis on their combined economic growth or potential is either exaggerated or oversimplified.

Concerns are increasingly being voiced over the huge bilateral trade deficit as India's exports to China constitute a mere US\$20.8 billion of the entire volume, while its imports from China are estimated at US\$40.9 billion. The question that begs attention now is what are the areas where one could possibly see these two Asian giants compete with each other? And will the economic relations between the two countries prove mutually beneficial or the competitive tenor will be more evident?

II

INITIATIVES SO FAR

The contours of Sino-India trade, both at the bilateral as well as regional and global have been changing rapidly in the last decade. At the bilateral level, a rapidly growing trade partnership

has provided a great boost to their ongoing political confidence-building and at the same time bold political initiatives have made way for expanding role of their business communities that have become far more influential in determining the tone and tenor of their political interactions. The signing of the April 2005 "general parameters" agreement towards boundary settlement, the opening of a third border trade route through Sikkim in June 2003, and discussions for evolving a China-India Free Trade Area (FTA) were some of the examples which accompanied the reduction in forces deployment on the border.

The last five years have witnessed China-India trade quadruple and outpacing the set annual targets. Major items of export from India to China remain iron and chrome ore, plastic and linoleum, marine products, cotton yarn and fabrics, organic and inorganic chemicals, dye intermediates, bulk drugs and pharmaceuticals, construction quality wire rods, tobacco and tea. On the other hand, China's exports to India include items like raw silk and silk yarn, coking coal, some types of chemicals, pulses, mercury and antimony, freshwater pearls, pig iron, newsprint and several low-technology consumer items. Gradually, many new sectors - like border trade or high-tech trade - are being also explored while information technology and infrastructure development are already emerging as major areas for cooperation.

However all is not well as far as the Sino-Indian trade dynamics are concerned. The joint study

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group (JSG) on comprehensive trade and economic cooperation had identified scope for expanded economic cooperation between the two countries in trading of goods, services and investments and had even submitted a favourable recommendation for a China - India regional trade agreement (RTA) in 2008. Despite these suggestions not much has been done for the establishment of the proposed RTA or other regional trade initiatives like the Kunming initiative and BIMSTEC, as the terms and conditions were seen as unfavorable to India.

Similarly, the opening of the Stilwell Road or India's northeast to China's Yunnan Province has been a cumbersome process. Opening up of the Stilwell Road was for a very long time blocked by mutual political differences and security considerations of all India, China and Myanmar. Only this year, Myanmar seems to have finally overcome its long standing reluctance to open the road and has awarded the road-building contract to a Chinese company. The reopening of the Stilwell road could cut the cost of transportation cost of goods from the Indian side to China by almost 30 per cent, providing a boost to Sino-Indian overland trade in a few years. Increasingly the Indian economy is becoming dependent on China while the latter incessantly continues its foray into the western economies.

II

COMPETITION OR COOPERATION?

While both countries have a large gamut of issues to cooperate on, the relationship will also exhibit enormous amount of competition. Bilaterally, the factors that favour India's desirability as a trading partner are - stable and vibrant democratic polity

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as compared with China's restrictive political structures; a large skilled work-force with fluency in the English language which helps to simplify understanding of the procedures in each country; a functioning legal system which can help in quick redressal of grievances and contract enforcement, which China lacks.

However, there are also several impediments to India being chosen as the most-favoured destination for investment. Ineffective political leadership in terms of projection of the country's strengths and weaknesses, rampant corruption, poor maintenance of law and order and lack of an overall Indian strategy integrating economic and strategic issues are some most evident hindrances. Similarly, China also presents a set of challenges as well as opportunities for India to engage with it a bilateral level. The authoritarian nature of its political set up ensures effective implementation of laws and by-laws. At the same time it boasts of a 'disciplined workforce' based on Confucian ethics and a system of incentives and disincentives at the Central, State and town-level for performance ensures maximum output from its labour-force. For these given advantages and disadvantages, India and China are emerge as favourable markets for other countries as well, albeit through relatively preferential estimations.

Though the two countries have been cooperating in international forums like the WTO and climate-change negotiations, they are likely to compete for similar resources and markets such as in Africa, Middle Eastern and Latin American countries. Their bilateral economic relationship also suffers from immature posturing and people-to-people linkages as witnessed in the Yiwu incident that took place in January 2012 where two Indian traders working with a Yemeni national were subjected to illegal detention and threat to life. Irrespective of the fact that the language barrier results in several misunderstandings and the Chinese law is unclear about several official matters, Chinese Foreign Ministry spokesman Hong Lei stated that the "Indian side needs to positively educate and guide the country's people doing business in China to abide by Chinese laws and regulations, practice honesty and trustworthiness, and operate legally."

III

GEOPOLITICAL IMPLICATIONS: 'PERCEPTIONS MATTER'

It is globally anticipated that these two Asian neighbours will be the engines of global economy in the 21st Century. Thus, they are being increasingly pushed to shoulder new responsibilities in the backdrop of emerging bilateral, multilateral and global frameworks. Most countries including Europe and the US already seem to be recognizing China as a major financial supplier for their economies and have come forward to strengthen strategic cooperation to boost their sustainable economic and social development and address common challenges faced by these countries.

On the contrary, the interaction as well as reliance of the western countries with India has been relatively moderate. India has not yet been able to effectively utilize the international atmosphere during the 2008 financial crisis to assert its financial position. This might even be driven by its inability to project the comprehensive national strength of India to the global audience. The strength of the Chinese market economy also derives from the fact that it is one of the largest recipients of FDI. As per the list issued by the CIA World Fact Book, China received US\$574,300,000,000 as FDI, while India's share as a recipient remained only US\$ 191,100,000,000. (This report does not take into account investment in disputed areas like that of J&K)

A major reason for this reliance on China is its increasing clout in the global GDP percentage and its emergence as the biggest manufacturer of tradable goods and utility items. India's concerns are most visible in this sector as India's dependence on Chinese goods is increasing progressively and at the current pace, the Chinese products could take over the Indian markets within a few years. Pranab Bardhan argues that in the coming six years China could even possibly outdo India in the service sector, which has so far been the Indian forte. India has barely invested any efforts to create a favourable business perception amongst western countries leading to very low level of FDI into its manufacturing sector. Even though India had a

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comparative advantage in terms of its services sector, China is fast catching up and will pose a severe threat in terms of gaining space in international markets.

IV

THE ROAD AHEAD

The current Sino-Indian economic interactions suggest an element of inequity and scaremongering wherein China is seen as trying to extract maximum concessions from the Indian side. While political will and factors continue to shape the pattern of trade between these two neighbours, issues of accountability complicate the situation even further. How far will China be willing to discourage the Indian leadership or mass opinion in pursuit of its aggressive economic strategy remains to be seen, but the two neighbours are incredibly cognizant of the huge stakes involved in case they do not cooperate regionally as well as globally. In the short-term, opening up of the market for tradable goods and lifting of the barriers from the Chinese side might prove a fruitful step.

As pointed out by the Indian Foreign Secretary in his speech in 2011, that 'India wants to sell more value added products to China including pharmaceuticals and computer software. But for this to materialize China needs to dismantle non-tariff barriers for such trade and provide greater market access to India. Challenges in the medium term include attracting Chinese companies to invest in and manufacture from India which will help in employment generation and allay any

misgivings on India's part.' He also indicated that India would welcome Chinese participation in building infrastructure in India including financing of such projects. Science and technology exchanges are not very vibrant and both sides have much to learn from each other in this regard.

Chinese scholar Tan Yun Shan said about Sino-Indian relations being "the most important of the most important." There will be elements of competition in the Sino-Indian bilateral relationship but these can be managed so long as there are elements of congruence or common grounds can be built upon as Premier Chou Enlai envisaged previously. As the interests of the two countries get progressively more complex, at the same time the costs of withdrawal from engagement will also rise.

So far China's approach to India has been construed as that of strategic ambivalence, but until and unless it begins to co-opt India's aspirations both economic as well as strategic, its ascendance in Asia will not be smooth. As far as India is concerned, the opportunity lies in both engaging and hedging China at the same time. As a less powerful player during the 1960s and 1970s China effectively utilized its position vis-à-vis US and Russia to gain benefits from both parties. India could also perhaps utilize the present circumstances to engage with both the US and China which will allow it to function with leverage in the international arena.

Meanwhile, India should also keep in mind that it lacks the substantive infrastructure like that of China to be able to tap Chinese or other global markets and hence should without any further delay bring into effect mechanisms that would help to build a mature industry as well as trade surplus. These might include development of road connectivity as well business community linkages under the larger rubric of Building connectivity. Not only the state but also non-state actors like self-help groups and rural industrial enterprises could also be brought under the gamut of its expanse to build effective linkages between the two countries.

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