

India-China economic cooperation and regional cooperation: a Chinese perspective

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Contents

- China's paradigm shift and its implication on regional cooperation and integration
- China's view on bilateralism, regionalism and multilateralism
- Scope for regional cooperation

China's paradigm shift and its implication on regional cooperation and integration

The Chinese economy in the world economy (2008 figures)

- **Economic size**
 - US 14 trillion USD (2009)
 - Japan 5 trillion USD (2009)
 - China 4.8 trillion USD (2009)
- **Trade volume**
 - US 3.5 trillion USD
 - Germany 2.7 trillion USD
 - China 2.6 trillion USD
- **Contribution to global growth (2009F)**
 - Global GDP growth -1.4%
 - China's contribution 0.91%
- **Foreign exchange reserves**
 - China 2.3 trillion USD)
 - Japan 1 trillion USD (June, 2009)
- **Capitalization of stock exchanges (HK included)**
- **Current account surplus**
 - China 440 trillion USD
 - Germany 235 trillion USD
 - Japan 157 trillion USD
- **Top three commercial banks in the world**
 - ICBC
 - CBC
 - BoC
- **Steel production**
 - China 50 billion T (37.7% of global total)
 - Japan 11.8 billion T
- **Car production**
 - 120 million Unit
- **Energy consumption**
 - 2 billion T coal equivalent
- **CO2 emission**
 - US 6 billion T (2006)
 - China 5.9 billion T (2006)

来源：关志雄博士整理

说明：未指明年份者皆为2008年

China's old growth pattern

- Investment-driven
 - The investment rate hovering between 40%-50%
- Export-led
 - Trade/GDP > 60%
 - Export/GDP > 35%

Why a paradigm shift is needed

- Growth is no longer sustainable, due to the problems caused by the old growth mode
 - High external dependency and imbalances
 - Trade friction and trade wars
 - Vulnerability to external shocks
 - Welfare losses
 - High investment rate
 - overcapacity
 - waste
 - Pollution,
 - High carbon economy
 - Energy efficiency
 - High energy intensity
 - Income distribution gap between different social group and between rural and urban areas
 - Insufficiency of provision of social goods (social safety net, medic-care, education, etc.)

Three big external challenges

- Trade war with the US?
 - Trade surplus
 - The renminbi exchange rate
- Commitment to mitigation of CO2 emissions
- Safety of its foreign exchange reserves

Chinese responses to the internal and external challenges

- Stimulating domestic demand
- Lower carbon emission by raising energy efficiency etc.
- Slow appreciation, a neutral export regime
- Diversification of export destinations
- Further liberalization of the import regime
- Further liberalization of capital account
- Encouraging Out-bound FDI
- Increasing foreign aids
- Diversification of foreign assets
- Promoting the reform of the international monetary system, strengthen regional financial cooperation and promote renminbi internationalization
- **All the above mentioned responses have direct or indirect impacts on China's policy on regional cooperation and integration**

China's view on bilateralism, regionalism and multilateralism

Bilateralism , multilateralism and regionalism

- Bilateralism
 - Traditionally a favorable form for China
- Multilateralism
 - More and more acceptable for China
 - China is comfortable with WTO at this moment
 - Compatible with bilateralism FTA ect. and mostly with regionalism
 - Alliance with, veto
- Regionalism
 - China's enthusiasm peaked at CMI
 - Then, what value does regionalism add to bilateralism and multilateralism?

Politics of regionalism

- The reason for regionalism
 - There must be strong political motivation
 - Grievance vis-à-vis some outsiders
 - Common political determination with members
 - There must be economic Value added to the multi and bilateral
- EU
 - Peace
 - vis-à-vis US Charles De Gaulle
- ASEAN
 - Anti-communism
 - ASEAN 10—fear of China?
- **ASEAN+3**
 - Positive: Response to US, IMF—more comfortable
 - Negative: Sino-Japan competition

动力 政治是区域合作的最重要推

A further expansion of ASEAN+3

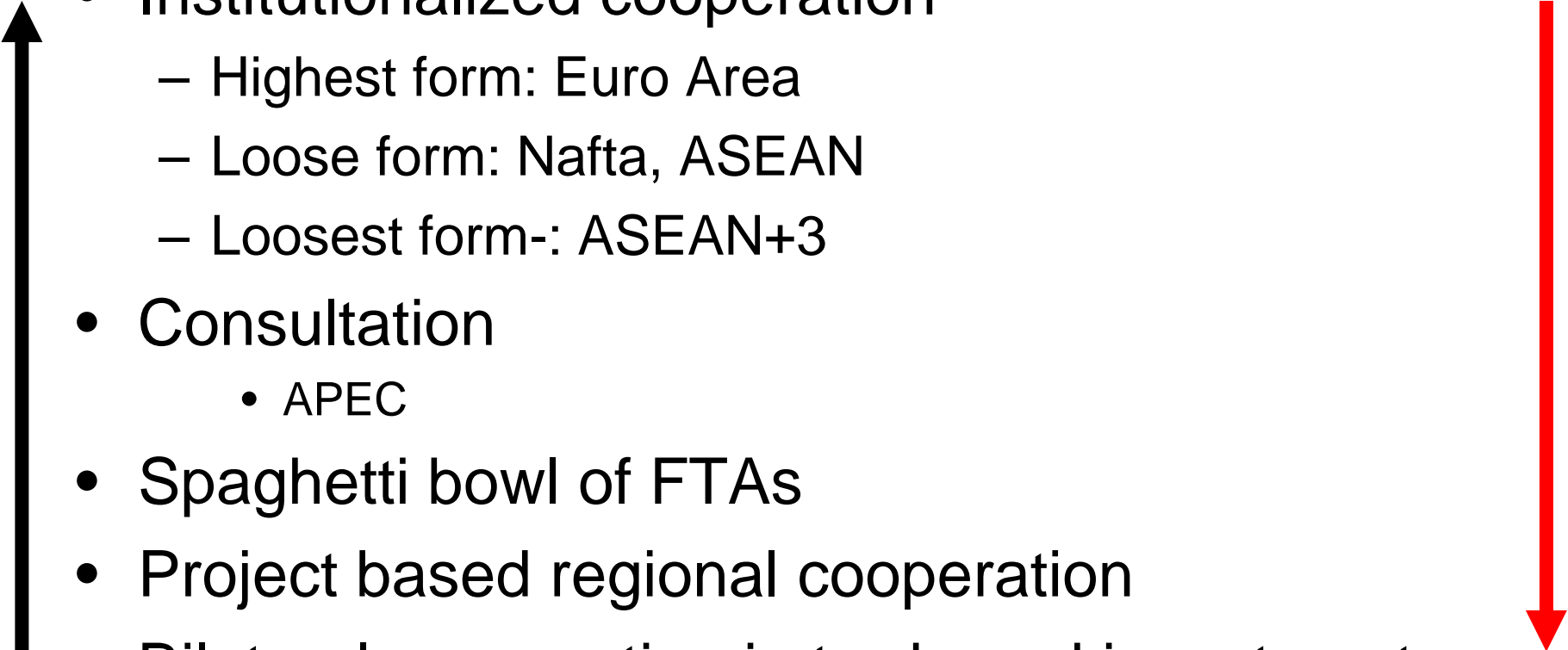
- ASEAN+6? What value can this expansion add to ASEAN+3?
 - Economic benefits? not clear
 - ASEAN+3+ bilateral FTAs can do all the tricks
 - Political benefits?
 - Dilute the influence of China? It's fine. but
 - More importantly: how about other south east countries? How about central Asian countries? How about Russia? If you include Australia and New Zealand? How about the US?
- Cooperation is one thing, institutionalized cooperation is another

continued

- Diversified interests
 - India and China share a developing countries more common language than between India and Japan (climate change etc.)
 - How ASEAN+6 can find common position vis-à-vis the US and EU? Or vis-à-vis the WB and IMF?— maybe, on some issues
- Open regionalism?
 - Contradiction in terms
 - EU will not open to any of us

Scope for regional cooperation

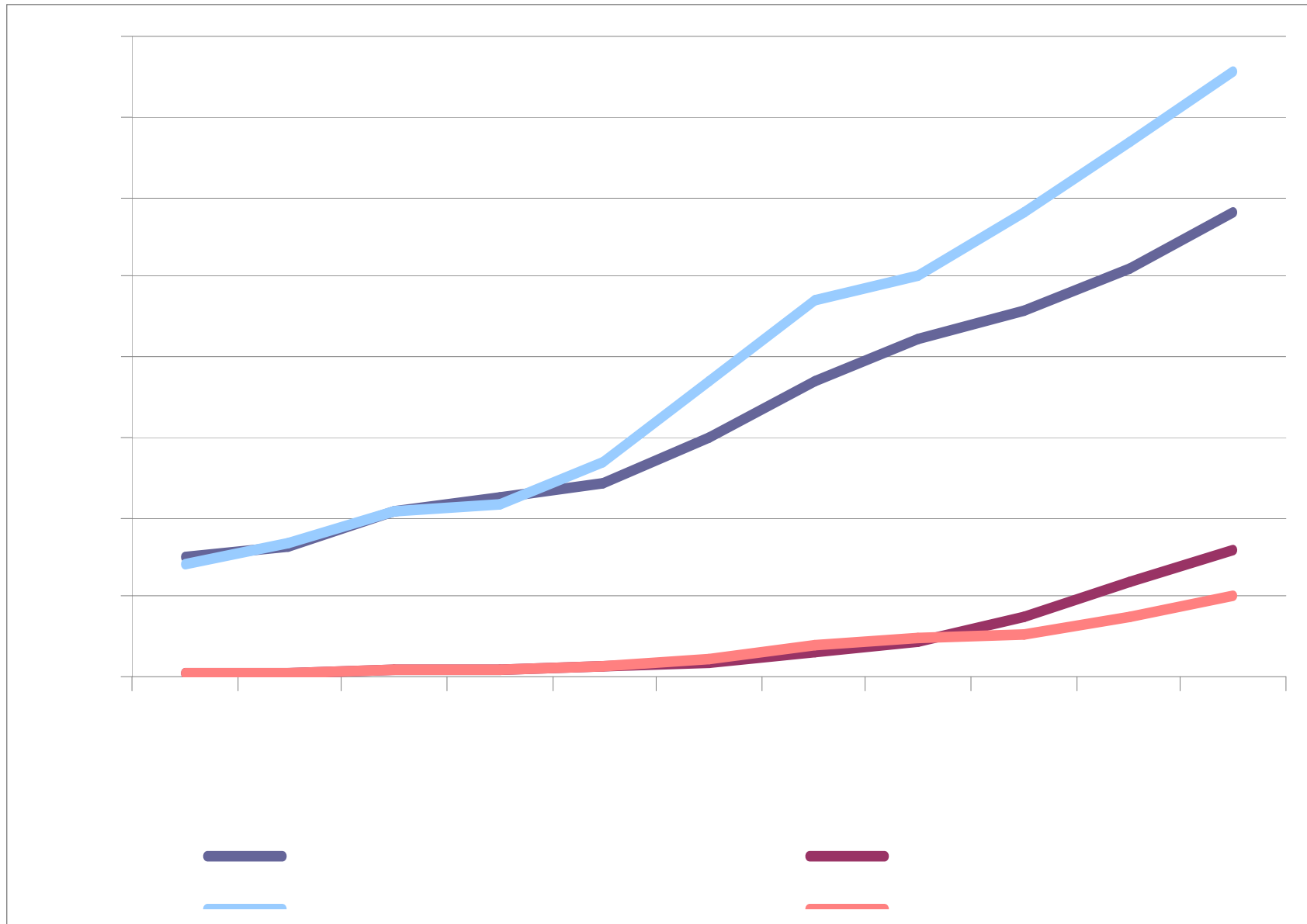
economic cooperation at different levels

- 
- Institutionalized cooperation
 - Highest form: Euro Area
 - Loose form: Nafta, ASEAN
 - Loosest form-: ASEAN+3
 - Consultation
 - APEC
 - Spaghetti bowl of FTAs
 - Project based regional cooperation
 - Bilateral cooperation in trade and investment

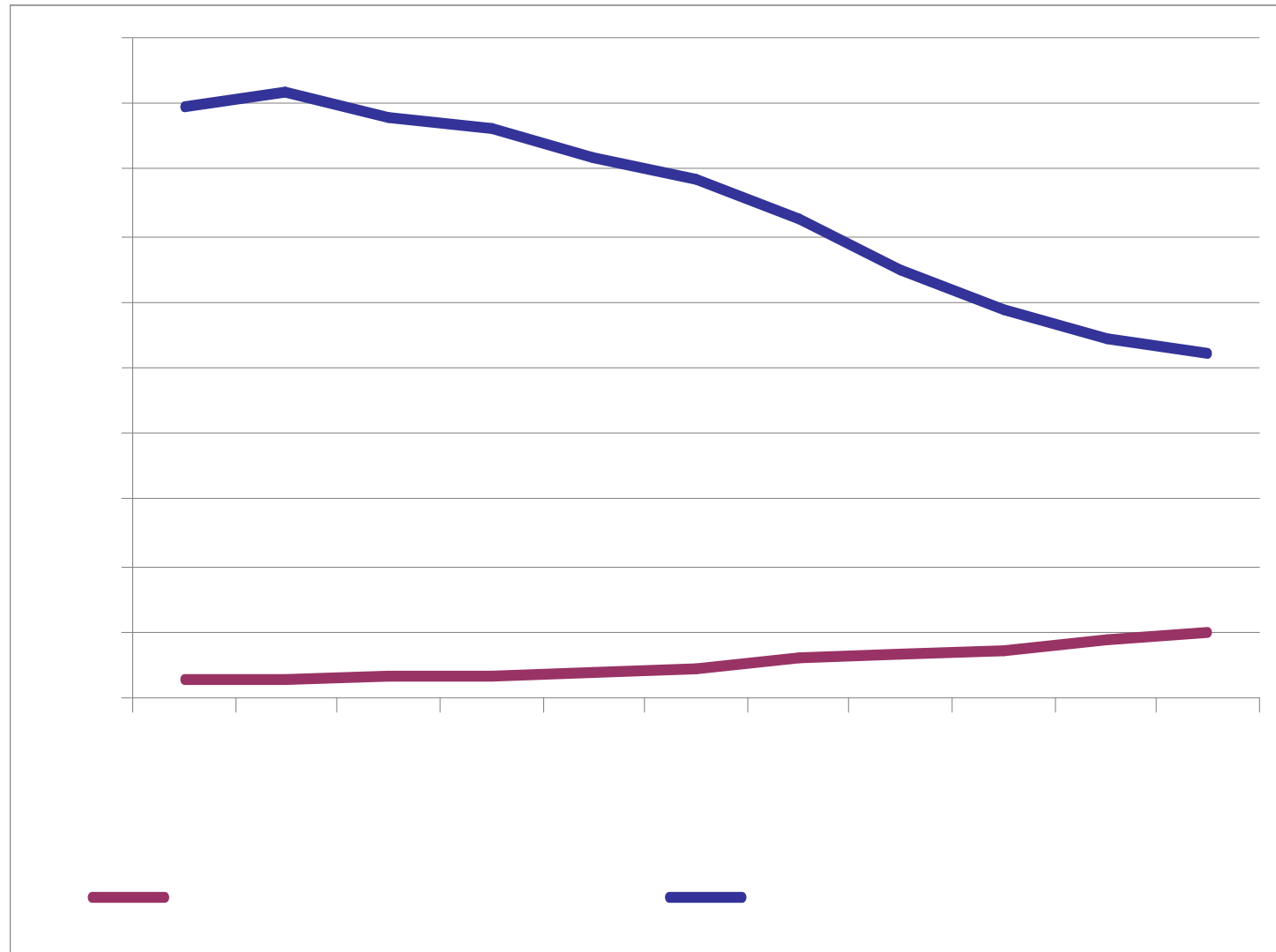
Bilateral trade and investment

- Japanese-Sino trade relationship is healthy and solid
- Indian-Sino trade has expanded rapidly
- That Japan's investment in India surpassed its investment in China is perfectly understandable. It may continue for a long while, China has no problem with this development whatsoever.
- China's investment in India could increase rapidly, if India welcomes China's investment

Exports and imports between Japan and China and between India and China
Unit: billion Dollar



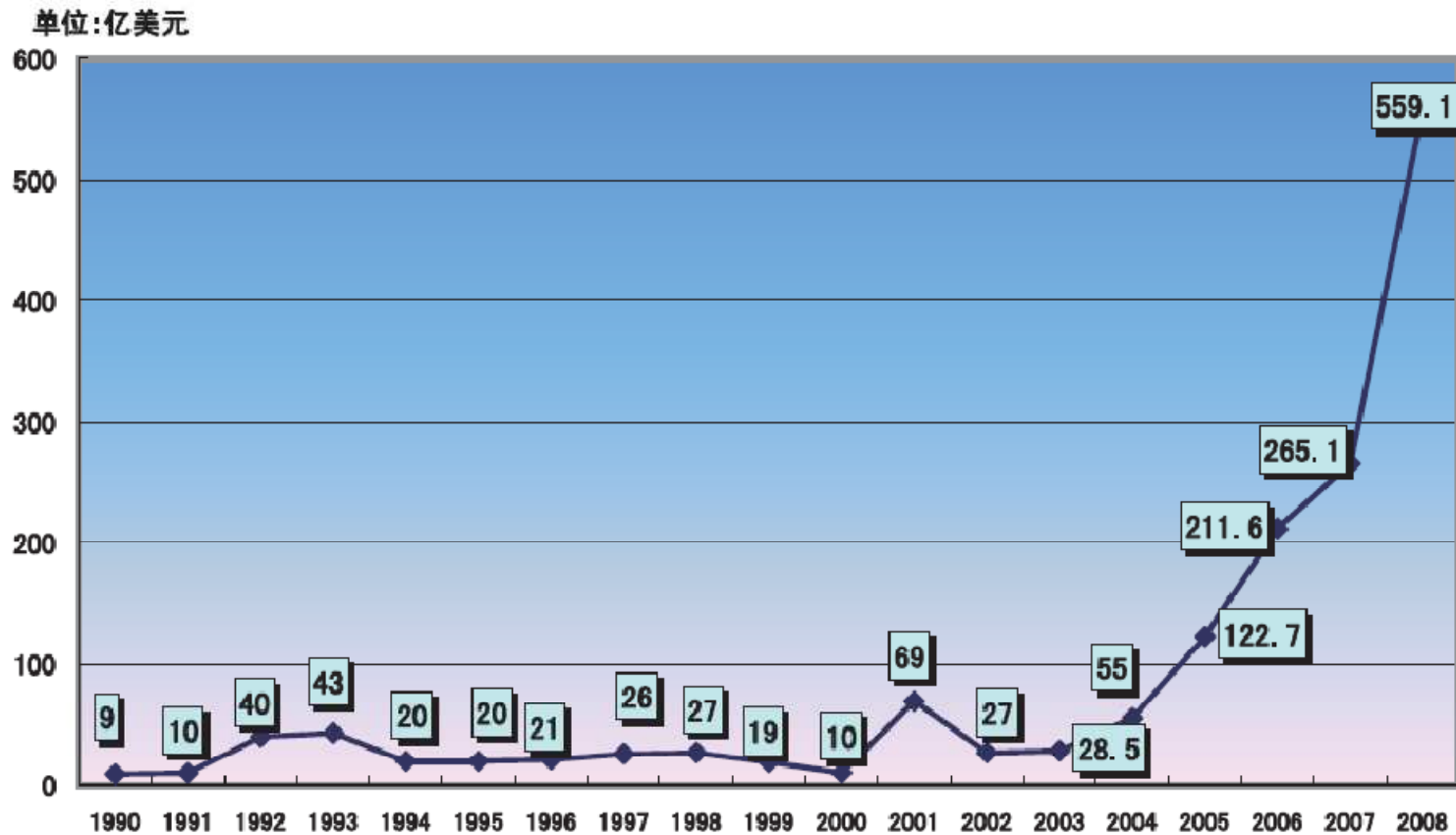
China has become India's largest trade partner



Shares in total trade of China

China's out bond FDI

unit:100million USD



注：1990至2001年中国对外直接投资数据摘自联合国贸发会议世界投资报告，2002至2008年数据来源于中国商务部统计数据。

China's out-bond FDI geographic distribution 2008

India ranks 22 behind Afghanistan unit 100
million USD

序号	国家 (地区)	金额 (亿美元)
1	中国香港	386.4
2	南非	48.08
3	英属维尔京群岛	21.04
4	澳大利亚	18.92
5	新加坡	15.51
6	开曼群岛	15.24
7	中国澳门	6.43
8	哈萨克斯坦	4.96
9	美国	4.62
10	俄罗斯联邦	3.95
11	巴基斯坦	2.65
12	蒙古	2.39
13	缅甸	2.33
14	赞比亚	2.14
15	柬埔寨	2.05
16	德国	1.3
17	印度尼西亚	1.74
18	尼日利亚	1.63
19	阿拉伯联合酋长国	1.27
20	越南	1.2
21	阿富汗	1.14
22	印度	1.02

Potential for bilateral economic relationship between India and Japan and between India and China

- The two bilateral relationships are of great potential
- Highly complementary
 - India's service sector
 - China's manufacturing sector
- What role can the tripartite dialogue play in the two bilateral relationship? Need to be further explored. A tripartite committee?

From Bilateral to regional

- Regional cooperation could be a by-product of development of multi-pair of bilateral economic cooperation—bilateral FTAs could be a channel leading to closer regional cooperation.
- Something may happen across bilateral agreements

他们不会喜欢双边关系的多边化。强调双边关系，对于小国来说，多边可推动，但对于中、日、印这样的大国来说，

Consolidate ASEAN+3

- The nature of ASEAN+3
 - A product in response to the failure of the IMF in tackling with the Asian financial crisis
- Achievement
 - Regional liquidity arrangement (multilaterization of bilateral swap arrangement)
 - Asian bond market
- Further progress
 - Swap agreement delink with imf
 - AMF
 - Exchange rate policy coordination (ACU)
- Expansion of the membership
 - Clearly defined criteria: geographic, economics or whatever
 - Observer status
 - Qualifying examinations for upgrading status

Project-centered cooperation

- Based on bilateral, multilateral and sub-regional cooperation
- Aimed at specific purpose:
 - across border high way, rail way
 - Hydraulic project
 - Waterway
 - Research and training centers
- ADB can play active role with the support of relevant countries

A few remarks

- India's policy of looking east should be warmly welcome
- Indian-Sino relationship will be further improved
- India's entering ASEAN+3 cooperation should be welcome
- A well thought-out procedure should be found so that the whole region in East Asia and South East Asia can be benefited