

India-China Economic Cooperation

- Santosh Kumar*

A major dimension of the India-China economic relationship is trade, which is increasing at a fast pace. Total trade between the two countries touched US \$ 46.7 billion in 2009-10. Although the growth rate has slowed down of late, China has become one of the fastest growing markets for India and is its top trading partner ahead of Japan and the US.

India's Trade with China

(US \$ Million)

S.No.	Year	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
1.	EXPORT	6,759.10	8,321.86	10,871.34	9,353.50	11,617.88
2.	% Growth		23.12	30.64	-13.96	24.21
3.	IMPORT	10,868.05	17,475.03	27,146.41	32,497.02	30,824.02
4.	% Growth		60.79	55.34	19.71	-5.15
5.	TOTAL TRADE	17,627.15	25,796.89	38,017.74	41,850.52	42,441.90
6.	% Growth		46.35	47.37	10.08	1.41
7.	TRADE BALANCE					
8.	India's Trade Balance	-46,075.20	-59,321.19	-88,521.83	-118,400.95	-109,621.45

Source : Department of Commerce, GOI

But there are substantial structural problems which need to be addressed. To begin with, the trade balance is heavily weighted against India to the tune of US \$ 19.2 billion (2009-10). This by itself should not be a big worry as cheaper capital goods, power equipment

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and other imports from China help India's economic development, as well as the global trade balance. What is of concern is the effect on India's domestic industry. The Chinese economy is an export machine with opaque costs of production, hidden subsidies and an undervalued currency. Indian fears of being swamped by Chinese goods is evident from the number of anti-dumping cases registered against Chinese exporters, the largest against any country.

The flip side of the coin is the relatively difficult market for Indian exports to China. Part of the reason is that India's export basket to China is dominated by iron-ore and primary and semi-finished iron & steel products which together account for almost half of the total value. As China's infrastructure gets progressively saturated these commodities will lose their dynamism in the export basket. They will in any case have to reckon with stronger competing demand from India's own infrastructure sector as its growth accelerates. On the other hand, China has embarked on a policy of stimulating domestic demand which will expand its market for consumer products in the years to come. Since China is no longer a centralized economy in the classical sense, the role of its government is increasingly limited to providing a conducive trade policy framework and informal directives. It is therefore the businesses of both countries which will have to take the lead to explore items which are exported by India to other markets and imported by China from other countries but not from India. Pharma is obviously a sector which needs more intensive interaction between companies of the two countries. So are IT and financial services. The Chinese government can help, for example by giving easier access to Indian services exports and streamlining registration procedures for Indian pharmaceuticals.

Coming to the issue of China's undervalued Renminbi (RMB), not enough attention has been paid to its adverse impact on India's exports to China and to third country markets. This is perhaps because the RMB parity issue is global with much more powerful 'aggrieved' countries like the U.S. The overall problem was acknowledged by China in the Seoul G-20 meeting in October last year but no measures have been taken to remedy the situation beyond allowing the RMB to appreciate marginally in the market. It is too

much to expect the Chinese to alter their policy because of Indian concerns but compensatory initiatives can be looked at for a more balanced economic interaction. In this context, further research on the impact of RMB revaluation on goods and services traded bilaterally might be useful.

A major avenue to be explored in this context is increase of Chinese investment in India. China's mega-accumulation of foreign exchange reserves of US \$ 2.8 trillion is currently invested in treasury bills and other assets in developed countries, particularly the US. But yields are low, sometimes negative. India provides both a safe legal and financial framework as well as higher returns. And yet, Chinese FDI in India is miniscule owing to confidence deficits in terms of India's security concerns and China's risk perceptions. India's ban on import of telecom equipment from Huawei Technologies and ZTE Corp are cases to point. Innovative investment mechanisms to open up clogged channels should be examined. Perhaps the time has come to fix investment targets, at least for promising sectors like hi-tech and infrastructure.

Longer term prospects for economic cooperation exist, particularly in the energy sector. At present, no effective joint mechanism [is](#) available for exploiting the hydropower (and water management) potential of Yarlong Zangbo-Brahmaputra and other rivers entering India from the Tibetan plateau. In order to allay fears and build confidence for future cooperation, the two sides need to have a more exchange of information on China's plans to build dams or divert Brahmaputra waters to irrigate dry areas of Central-North China.

There are of course complex territorial, technical and strategic issues that need to be addressed before these problems can be surmounted.