

China and India in a Globalised World
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(Views are personal)

India has been a trading nation for centuries, as has China. China has, however, been much more successful since 1980 in exploiting the opportunities provided by a globalised world to enhance its own growth. Its trade, led by exports, has increased much more rapidly to seven times ours. Free, fair and open trade with any and every country in the World is in the interests of India. ICRIER studies have shown that in 2000 the potential for trade between India and China was about 2.5 times the actual trade. The India-China study group (of which I was a member) has identified constraints and barriers that impede the attainment of this objective and recommended solutions. If these are sincerely and speedily implemented, there will be a mutually beneficial increase in trade.

Should better trade relations be contingent on and hostage to building of trust? Do we need to trust the Chinese to trade with them? I don't think so! The essence of modern markets is impersonality. The systems of laws and rules that constitute the market as an institution allow strangers to trade with each other. If we only traded with our friends and relatives, the modern industrial economy could not exist. Impersonal trade can however, lead to greater information flows and knowledge and therefore help remove misperceptions. If trade is good then is isn't more trade, engineered through a Free trade agreement, even better? This is false logic: More trade based on removal of distortions (e.g. a general reduction of our very high tariffs) is good for the Indian public, more trade based on creation of new distortions (e.g. selective reduction in tariffs for China) is bad both for industry and the public.

International trade in services is much more important to India than it is for China. An FTA would benefit China more than India, but can't we balance this by better access for our Service exporters? Possible, but unlikely during the next 3 years. Service trade is heavily dependent on domestic rules, regulations and procedures. Partly because of the language barrier and partly because China is still a Socialist nation run on the principle of the "Dictatorship of the proletariat" such rules and regulations can be extremely non-transparent to Indian exporters and subject to individualistic application and change. It would be serious mistake to assume that if we reduce our goods tariffs to zero (the essence of a Free Trade Agreement) China will allow India free access to its service exports and the associated movement of skilled personnel. This will require a clear understanding of our national interest, hard bargaining, clear and explicit agreements and forceful implementation. It cannot be based on trust. In the next five years China will open its economy to service exports in line with its accession agreement with WTO. This will open opportunities for Indian service exports and will also indicate how open China's service market will truly be. During the same period, the gap between India's and China's general tariff rates will be narrowed perhaps even eliminated. The scope for a mutually beneficial bilateral agreement will be much greater and we can and should revisit the issue in about three years.

Trust is critically important in a broader 'partnership' in economic, technological or strategic areas. Larger trade volumes cannot act as a substitute for rebuilding trust where it has been destroyed. The basic source of mistrust is the undefined border and the supply of nuclear technology (e.g. atomic bomb designs, in violation of NPT) and material to countries/regimes hostile to us. Other issues impinging on 'trust' include, (a) Opposition to the entry of India into pan-Asian economic organisations such as East Asian economic organisation and ASEAN+3. (b) Implicit (through Pakistan) opposition to permanent membership of India in the UN Security Council. The fact that India supported replacement of Taiwan, China by China, PRC in the Security Council decades ago is merely proof of India's soft and sentimental approach in contrast to China's hard realistic approach. Trust can only be re-established by addressing these issues. The willingness, after a long time, of China's leadership to realistically address the border issue gives hope. On the other hand, the supply of nuclear and strategic technology to hostile countries/regimes is not conducive to building trust. Trust cannot be compartmentalised. It can only be rebuilt by addressing the broad range of issues in a sustained way.

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