

# \* China India Relations: Will economics survive the politics?

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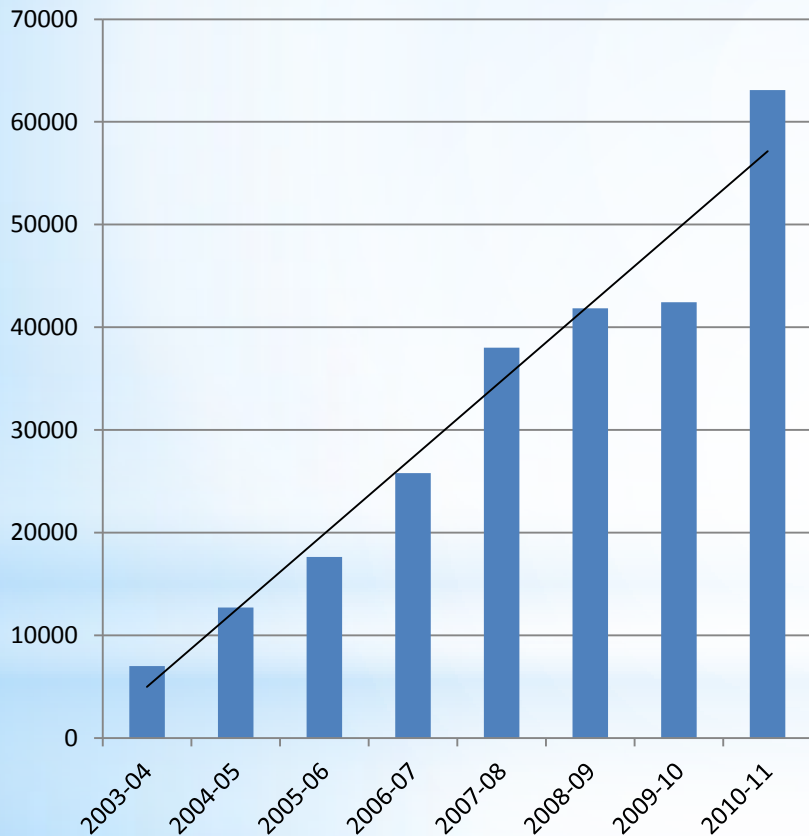


## \* Too Big to Co-exist?

- \* Both countries have enough space to grow and expand; but their sizes and growth trajectories in a world increasingly dominated by their actions and ambitions, create occasions where interests clash or converge

# \*The Dichotomy

## Economics

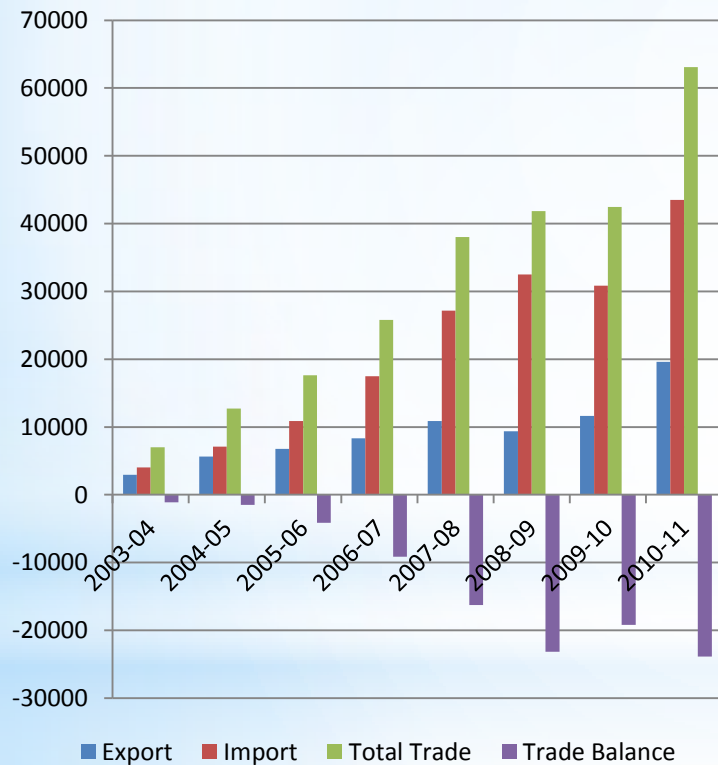


## Politics

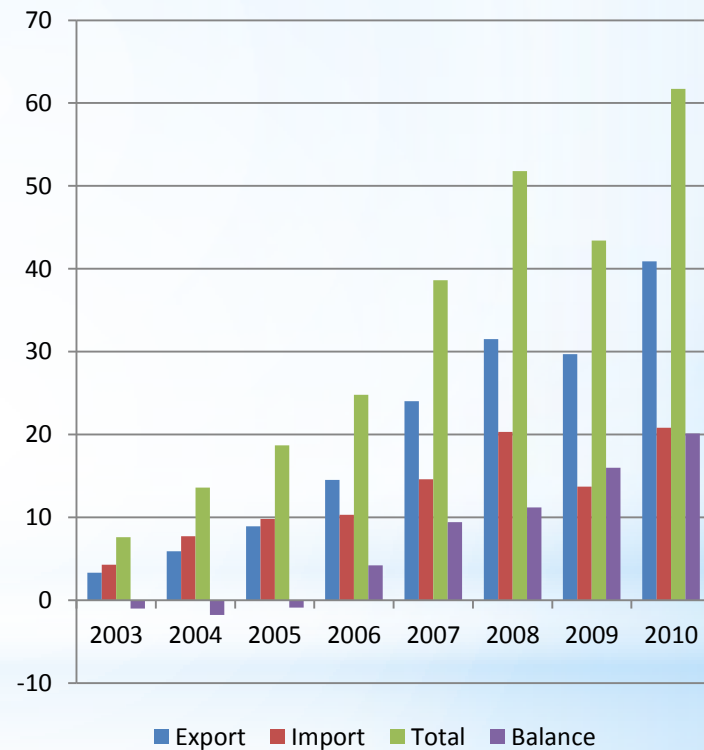
- \* Arunachal Pradesh
- \* Aksai Chin
- \* Tibet and Dalai Lama
- \* 'String of Pearls' - India
- \* 'Encircling Democracies' - China
- \* Overwhelming Trust Deficit

# \* Trade : At Full Steam

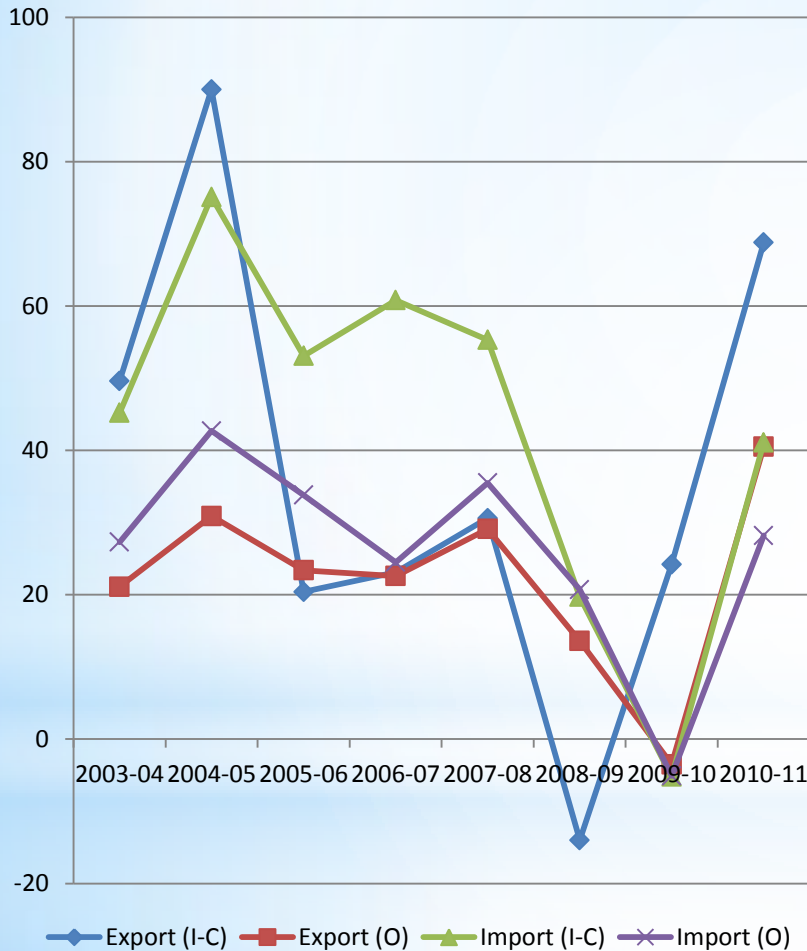
## Bilateral Trade (Indian Data)



## Bilateral Trade (Chinese Data)



# \* Trade Growth : Above Trend



# \* Unique Configuration

- \* 2<sup>nd</sup> and 10<sup>th</sup> largest global economies, yet
- \* Developing economies
- \* Large gaps between growth and development outcomes - non-OECD feature
- \* Most populous countries (1.34 bn, 1.2 bn)
- \* Most urbanising countries
- \* Most low-income segments

# \* Common Challenges

Structural Consequences of Rapid Economic Expansion create common challenges.

- Managing Urbanisation
- Accessing energy sources
- Ensuring water availability
- Containing domestic prices
- Sustaining environment & tackling climate
- Managing land markets

# \*Turf Issues : Energy

- \*GDP Growth (1980-1997): China (9.9%), India (6.0%)
- \*Energy Consumption (1980-1997): China (5.5%), India (5.3%)
- \*Access to oil & gas constrained by geography
- \*High oil imports: China 4.3 million barrels (2<sup>nd</sup>), India 2.2 million barrels (5<sup>th</sup>) in 2009
- \*High coal imports
- \*Rising import prices and domestic prices
- \*Race for 3<sup>rd</sup> country hydrocarbon assets: Africa, Central Asia, Southeast Asia

# \* Consumption-Endowment Imbalance

	Oil (mt)	Coal (mtoe)	Gas (mtoe)	Nuclear energy (mtoe)	Hydel power (mtoe)	Total (mtoe)
Argentina	22.3	1.1	38.8	1.8	9.2	73.3
Brazil	104.3	11.7	18.3	2.9	88.5	225.7
China	<b>404.6</b>	<b>1537.4</b>	<b>79.8</b>	<b>15.9</b>	<b>139.3</b>	<b>2177</b>
India	<b>148.5</b>	<b>245.8</b>	<b>46.7</b>	<b>3.8</b>	<b>24</b>	<b>468.9</b>
Indonesia	62.0	30.5	33.0	-	2.7	128.2
Mexico	85.6	6.8	62.7	2.2	6.0	163.2
Russia	124.9	82.9	350.7	37.0	39.8	635.3
South Africa	24.3	99.4	-	2.7	0.2	126.8
Turkey	28.8	27.2	28.9	-	8.1	93.0

# \*Turf Issues : Water

- \*Decline in per capita water availability (2007-2030): 2150-1860 (China), 1730-1240 (India)
- \*Increase in water demand (2005-2030): 61% (China), 58% (India)
- \*Groundwater reserves under maximum pressure due to water-intensive farming techniques and urbanisation
- \*Flows to reduce heavily in Yellow River and Ganges due to global warming by 2050.

# \*Tibet : Unavoidable Attention

Name	Course in China	Course in India	Other country
Indus	Tibetan plateau in Western China in Tibet Autonomous Region	Ladakh district in Jammu & Kashmir	Pakistan
Sutlej	Tibet Autonomous Region	Himachal Pradesh and Punjab	Pakistan
Brahmaputra (also known as Yarlung Tsangpo, Dihang, Jamuna)	Tibet	Arunachal Pradesh, Assam	Bangladesh
Ghaghara	Tibetan Plateau	Bihar, Uttar Pradesh and Uttarakhand	Nepal
Torsa	Tibet	West Bengal	Bhutan, Bangladesh

# \*Turf Issues : Market Access

- \*Stalemate at WTO forcing regional trade deals
- \*Tendency towards bilateral PTAs/RTAs
- \*Geographical focus on Asia - adding to 'Spaghetti Bowl'
- \*'Domino effect' or 'fear of exclusion' often leading to shallow deals
- \*Multiple systems and regulations increasing transaction costs in region

# \* On Common Grounds

## India

Region/Country	Agreements Concluded	Agreements Negotiated/Studied
Asia Pacific	APTA	Australia, New Zealand
Southeast Asia	ASEAN (goods), Singapore, Malaysia, Thailand	Indonesia, Vietnam
South Asia	SAFTA, Afghanistan, Bhutan, Nepal	Bangladesh, Maldives
East Asia	Korea	Japan, China, Mongolia
Middle East		GCC
Africa	SACU	Mauritius
Latin America	MERCOSUR, Chile	
Europe	Finland	EU

## China

Region/Country	Agreements Concluded	Agreements Negotiated/Studied
Asia-Pacific	APTA, New Zealand	Australia
Southeast Asia	ASEAN (goods and services), Singapore	
East Asia	Hong Kong, Macao, Taiwan	Korea, Japan
South Asia	Pakistan	India
Middle East		GCC
Africa		SACU
Latin America	Chile, Peru, Costa Rica	
Europe		Iceland, Norway, Switzerland

## \*Turf Issue : Aid & Development Assistance

- Both donors for the global South
- China relying on infrastructure-building through SOEs
- India relying on EXIM Bank credit lines and technical & economic co-operation.

	China	India
Africa	Angola, Congo, Gabon, Ethiopia, Equatorial Guinea, Mozambique, Kenya, Liberia, Madagascar, Niger, Nigeria, Rwanda, Sierra Leone, Sudan, Uganda, Zambia	Angola, Cameroon, Chad, Congo, Ethiopia, Gambia, Ghana, Kenya, Lesotho, Madagascar, Mali, Mauritius, Mozambique, Niger, Rwanda, Seychelles, Sierra Leone, Sudan, Suriname, Tanzania, Zambia
Latin America & Caribbean	Bolivia, Brazil, Chile, Columbia, Costa Rica, Cuba, Grenada, Peru, Venezuela, Uruguay	Columbia, Ecuador, Guyana, Honduras, Jamaica, Peru, Venezuela
Southeast Asia	Indonesia, Cambodia, Philippines, Vietnam, Myanmar, Laos, Thailand	Cambodia, Myanmar, Laos, Vietnam
South Asia	Afghanistan, Bangladesh, Nepal, Pakistan, Sri Lanka	Afghanistan, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka

# \* Turf Issues : Bilateral Trade

## China

Product	NonTariff Barrier (NTB)
Fish	Technical standards, food safety requirements & procedures.
Vegetables	SPS & certifications.
Tobacco	Environmental risk analysis and quarantine requirements.
Pharmaceuticals	Product and corporate registrations, delays in obtaining import drug licenses, customs procedures, re-inspection, packaging regulations and banking procedures for remittance.
Electrical insulators	Export subsidy and low energy costs
Indian films	Limiting quotas on number
Wind/non-conventl energy	Local content requirement, non-recognition of global IPR regime

## India

96 anti-dumping actions:  
almost 200 tariff lines  
(2002-2010)

6 China-specific safeguards

- \* Chemicals, plastic, rubber
- \* Textile, wood & Ceramic
- \* Iron & steel, machinery, equipment, appliances, parts & components
- \* Glass, aluminium

# \* Public Policy Challenges

- ✓ Sustainable urbanisation
- ✓ Uninterrupted supply of energy for growth
- ✓ Livelihood concerns from lower water per capita
- ✓ Containing inflation
- ✓ Limiting industrial pollution
- ✓ De-linking energy-intensity & carbon-intensity
- ✓ Removing land market imperfections

# \* Collaboration

- \* Joint exploration and acquisition in energy
- \* Co-ordination on spot oil buys
- \* Research collaboration on eco-systems & biodiversity
- \* Agreement on monitoring glacier, energy conservation
- \* Climate change - global & bilateral
- \* Urban water pricing
- \* Strategic Economic Dialogue

# \*Trust Deficit

- \*Enthusiasm surplus overcome by Trust Deficit
- \*Conspicuous information asymmetry
- \*B2B Good
- \*G2G improving
- \*P2P low

Higher P2P critical for bridging Trust Deficit

In the foreseeable future, good economics must exist with not-so-good politics

# \* Good E & Bad P: Possible?

## China

- \* Growth organic part of growth in neighbourhood
- \* Neighbours include large economies and strong economic partners
- \* Large economic partners not necessarily good political partners
- \* Economics has helped in de-escalating tensions

## India

- \* Growth almost exclusive of neighbourhood
- \* Smaller economies in neighbourhood with weak economic ties
- \* Major economic partners are usually strong political allies
- \* Economics yet to diffuse tensions

# \* Good E & Bad P: Possible?

## China

- \* Strong intra-regional production networks have encouraged distancing of politics from economics
- \* More adept at realpolitik - economic engagement with US and Europe
- \* Growth through neighbourhood

## India

- \* Not major part of extensive regional networks
- \* Less adept at realpolitik, influenced more by ideology
- \* Growth can happen in spite of neighbourhood???

# \* Good E & Bad P : Possible??

- \* Negative externalities of competition should encourage more collaborations
- \* Greater collaboration would require making the bilateral 'economics' politics-neutral
- \* This would be easier for China than India at least in the medium term
- \* Much would also depend on new leaderships, domestic politics and economic policies

# \* POLITICS : DECIDING ECONOMICS

“...the effort has to be to create a climate of opinion whereby all political parties would unite in national interest to push forward the reforms agenda”

“Without successful political reform, it is impossible for us to fully implement economic reform, and the gains we’ve made in these areas may be lost”



\*Thank You.