



## **The China Symposia**

(A series to develop a broader and deeper multi-dimensional understanding of China)

Session on

### **‘The Future of China-India Bilateral Economic Relations’**

18 January 2016

Time: 05:00 PM - 06:30 PM

Venue: India International Centre, New Delhi

The session titled ‘The Future of China-India Bilateral Economic Relations’ of the China Symposia was held on the 18<sup>th</sup> of January, 2016 at the India International Centre (IIC), New Delhi. It was organized by the Ananta Aspen Foundation and the Institute of Chinese Studies. The session was chaired by Dr. Ashwini Deshpande, Professor of economics at the Delhi School of Economics and the panelists included Dr. Ramgopal Agarwal, former Chief Economist of the World Bank in China, Mr. Mihir Sharma, Opinion Editor of Business Standard limited and Mr. Sridhar Venkiteswaran, Executive Director of Avalon Consulting.<sup>1</sup>

Economic ties between China and India as one of the crucial areas of strategic partnership constituted the backdrop of the discussion. In the process of understanding the current and future bilateral relationship between the two Asian Giants, considerable attention was paid to the current domestic economic policies and financial situations of both the countries. The Chair, started the discussion by pointing out how both China and India, which were until now growing at a very fast pace are facing economic turmoil and how the whole world is watching them as they try to cope up with the economic slowdown. The Chair also mentioned that both the countries have numerous issues of inequality which slows down growth and though domestic economic development is not directly related to the topic of discussion, how India and China battles with the menace of inequality have an impact on the economic relationship with each other.

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<sup>1</sup> See the ‘programme details’ for detailed bios of the speakers and the chair.

The first Speaker, **Dr. Ramgopal Agarwala** discussed the following important points in his presentation:

- China as the largest Economy of the world
- China as a threat
- China in relation to India
- China's military doctrine

All the four points mentioned above were explained particularly with reference to the steel industry. In his years of experience in the World Bank, the speaker learnt that a country can only fully develop if it follows internal reforms and not reforms prescribed by outside agencies. Here, he pointed out that this was what China did and therefore it is the biggest economy of the world and will continue to be so in the foreseeable future if India does not take over. The speaker praised China's achievements in almost all the sectors, especially the coal and steel industry and he mentioned that India has a huge opportunity to seize the surplus from China. This according to him can be done by participating in projects like the One Belt One Road (OBOR) initiative or the Asian Infrastructure Investment Bank (AIIB). The speaker listed out areas where China and India could cooperate – for example, in the conservation of the Himalayan ecology, developing the Himalayan belt for attracting tourism and even in helping the tribal minorities of the Himalayan region. On the policy front, the speaker commented that India typically looks up to the United States while there is much to learn from China. China has a clear economic strategy but India is very confused regarding its economic reform policies and there are numerous limitations in India's economic strategy.

However, the main problem that hinders the bilateral relationship between India and China is that China is obsessed with correcting the historical injustices. He added that another reason why China is complicated is because China's military doctrine is both frightening and sensible at the same time. It is sensible because they believe in winning the war without fighting but at the same time, this can be frightening as doing so involves deception, something that China did with the US. China won the economic war against the US without fighting. The speaker concluded by stating that in order to foster good bilateral relationship with China, it is very important for India to first understand the Chinese, and for this, India needs to send many scholars to China to study the language and live there for longer periods.

The second speaker, **Sridhar Venkiteswaran** gave a very interesting presentation on the present economic situation in China. A major part of his presentation focused on the recent crash that China

has experienced and how this crash was predictable keeping in mind the various reforms that the country is going through. Throughout the presentation, the speaker was optimistic about China's economic situation as he was convinced that the stock market alone is not enough to measure China's economy. At the outset, the speaker explained that the huge trade deficit between India and China dominates the general discussion on bilateral relations between the two economies. China has been on the news for its crash because China's economy has grown to such an extent that any untoward episode in the Chinese economy will greatly impact the global economy. However, the stock market alone cannot be considered as a barometer to measure the country's economy because there has been growth in other sectors like investment-led growth, which has been accelerating since 2008. Further, the low GDP figures were owing to the shrinkage of manufacturing and the recent devaluation of the Yuan must not be viewed with surprise as it was a logical follow up to the first devaluation in 2015. Exports are expected to decline further and there are many who are predicting a hard landing but the speaker passionately believed that India should stop fussing about the declining GDP and instead concentrate on the sectors that are booming. The speaker concluded by predicting that low value added manufacturers are bound to face losses and with time, even the white color jobs will be impacted. Agricultural import from Russia is bound to rise and China will concentrate on making its labor more skilled and will hire only professional managers.

The third speaker, **Mihir Sharma**, presented a very compact picture of the similarities and the differences between the Chinese and the Indian economy. According to him, the similarity between the two economies is that both need to go through a structural transformation. Referring to the point made by Mr. Venkiteswaran, he argued that China needs to move away from low value manufacturing and India needs to move away from the service sector to the manufacturing sector. These structural changes are conflicting with the short term objectives because both are at the bottom of the business cycle. The difference between the two economies according to the speaker is that China is a much bigger economy than India at present.

India needs the surplus capital from China and China too needs to invest its surplus capital elsewhere; as such there is a synergy between the needs of the two economies. The connectivity and infrastructural problems of India could be resolved through China's One Belt One Road project. However, the real problem is much more complex as when it comes to the details of the terms of cooperation; both the countries are not in a position to compromise. If and when China invests in India, it expects larger returns than India is willing to concede. The speaker also compared China's interest in investing in India to the neo-colonial practice of exploiting markets. The speaker concluded

his presentation by stating that the main problem faced by India-China bilateral relations is lack of trust and hence it is important to begin by cooperating in areas of common interest like formulating agreements to go against the US' Trans Pacific Partnership (TPP), which excludes both India and China.

### **Discussion**

During the vibrant discussion that followed, it was stated that the reason why China continues to do business with India is to protect its own exports. Issues regarding companies like Alibaba were raised during the discussion. Additionally, the importance of democracy was also discussed after which it was concluded that India has an edge over China in this regard. Questions were also raised regarding the validity of the comparison between India and China as China had a thirteen years of head start as far as economic reforms are concerned. It was also stated that at present, India is in the same place where China was thirteen years ago. On the question of transition, some held that the current leaders of both the countries would face a much tougher public than their predecessors.

The Chair ended the discussion by stating that there are numerous challenges that hinder India-China bilateral relations and these challenges are multi-dimensional. She concluded that the challenges are probably higher than the synergies and the best way forward is to overcome distrust. With this note, the session came to an end.

### **About the 3<sup>rd</sup> China Symposium**

Economic ties constitute one of the most crucial areas of strategic and cooperative partnership between India and China. Both the Asian giants have grown in the post-reform years by increasing their external economic linkages. Currently, India-China trade stands at \$70.59 billion, which reflect tremendous opportunities for traders and investors of both countries in sectors such as agriculture and food processing, asset management, construction and infrastructure, pharmaceuticals, electronics and information technology, and transport and logistics. PM Modi has also highlighted opportunities in railways, smart cities, infrastructure and urban transport for cooperation. For India, there is bigger scope for greater technical and financial collaborations with China in specific "Make in India" sectors like thermal power, renewable energy, railways, construction, ports and media & entertainment.

Despite many positive stories, one of the most important challenges facing India -China economic ties is the increasing trade deficit, which reached \$44.99 billion in 2014. In addition, both China and India

are conscious of their role in the world economy as they both seek to play a bigger political role on the world stage. There is a need to identify potential areas of economic collaboration where both India and China's economies enjoy complementarities. There is a possibility and desirability of India tapping China's vast forex reserves for Chinese inward investment to address India's infrastructural needs, which will help rectify the bilateral BOP deficit through the capital account. The session will explore and critically analyse the future of bilateral economic relationship between two Asian giants.

***Disclaimer***

*This report is a summary produced for purposes of dissemination and for generating wider discussion. All views expressed here should be understood to be those of the speaker(s) and individual participants, and not necessarily of the Institute of Chinese Studies.*