



## Sino-Indian Strategic Economic Dialogue An Analysis

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Amid growing trade deficit the Sino-Indian Economic Dialogue was held on 26-27 September, 2011. The Dialogue has come as an acknowledgement of the fact that the economics of their bilateral relationship is much more important than any other impending issue. India and China are locked in economic race. The dialogue has helped both the sides to understand the major concerns and explore new opportunities to look into the investments and tackle the growing trade deficit.

This essay highlights the major outcomes of the dialogue and what are the objectives, strategies and achievements of the Strategic Economic Dialogue? One question in particular needs to be addressed: Why should we look beyond the Beijing Dialogue?

### I SINO-INDIAN ECONOMIC DIALOGUE: AN INTRODUCTION

The frozen relationship between the two countries began to thaw after Rajiv Gandhi's visit to Beijing in 1988. During his visit the two countries established the Joint Economic Group (JEG) on Economic Relations and Trade, Science and Technology at the ministerial level. A joint study group was set up in June 2003 to examine the potential complementarities between the two countries to trade and economic cooperation. As per its recommendation, a Joint Task Force was set to study the feasibility of an India China Regional Trading Agreement. There are also joint working groups on Trade, Agriculture and Energy. Ever since then the trade has grown robustly. In 2010

bilateral trade reached USD 61.74 billion, a growth of 43 percent compared to the previous year.

The above cooperation was taken a step further during the visit of Wen Jiabao, Premier of the State Council of the People's Republic of China to India in December 2010. It was decided during his visit that a regular bilateral strategic economic dialogue mechanism will be established between the two countries. The first round India China Strategic Economic dialogue (SED) was held on 26 September 2011, in the China India Exchange year 2011.

This is the only such dialogue which Beijing has with any other country than the US. US-China Strategic and Economic (S&ED) Dialogue was established in April 2009. It is interesting to note that this dialogue was initially started as a Strategic Economic Dialogue (SED) in 2006 and after five rounds of talk a 'strategic track' was added and thereafter it became US-China Strategic and Economic Dialogue (S&ED). This particular dialogue is seen as a step in advancing positive, constructive, and comprehensive relationships between the two countries because it has an economic and a strategic track.

The Chinese delegation was led by Zhang Ping, Chairman, National Development and Reform Commission, a Chinese equivalent for Planning Commission. The Indian side was led by Deputy Chairman Montek Singh Ahuwalla. The top Economic Planners joined the talks from both the sides. The dialogue addressed the widening trade deficit and explored new areas for cooperation. It addressed the importance of healthy relationship at the time when both the countries are facing

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common challenges.

The two sides agreed that the Dialogue was highly productive and successful. It was decided that the next round of talks will be held in New Delhi in 2012. It was decided that prior to the next round a working group meeting to implement the consensus and decisions agreed to by the two sides at the 1st Strategic Economic Dialogue would be established. The main highlights of this maiden talk were: World Economic Situation , Respective Domestic Macro-economic Situations , Mid and Long-term Development Plans ,Improving Investment Environment , Energy Efficiency and Conservation, and Environmental Protection ,Infrastructure Cooperation and Water Use Efficiency.

### MAJOR ISSUES

The two sides had an in-depth and frank exchange of views on the world economic situation and reviewed the current world economic condition. Both countries decided to focus on domestic economic growth, which in turn can provide stability to the world economy. They discussed their respective domestic macro-economic situations and listed the challenges they faced in the course of their development process. It is noteworthy that the PRC has tackled its macroeconomic management well. Consequently, it has lower vulnerability to global economic shocks. Other factors which have added to the domestic macro-economic situation are large internal market, large monetary policy, and high consumer and investor confidence. After discussing their Mid and Long-term Development Plans, the two sides agreed that India and China face common task of advancing reform and promoting the comprehensive, balanced and sustainable development of each country. The two sides agreed to "stay committed to deepening bilateral investment cooperation, further opening markets, and improving the

investment environment in India and China so as to lay a solid foundation for pragmatic co-operation between the business of the two countries on the basis of complementarities, mutual benefit and win-win outcomes".

Energy Efficiency and Conservation, and Environmental Protection were an important topic of interest during the dialogue. China has established the world's most aggressive energy efficiency target, calling for a 20 percent reduction in energy intensity (which is a nation's energy consumption per unit of GDP) between 2005 and 2010. China has implemented a series of ambitious clean energy policies that will help to dramatically reduce the growth of the country's energy consumption and greenhouse gas emissions. Three key themes in China's 12th five year plan (2011-15) are economic restructuring, social equality, and environmental protection. Similarly, India's 12th five year plan (2012-2016) demands generating more power through renewable sources, such as wind and solar power. The two sides discussed the current status of infrastructure development in their respective countries and explored the prospects of cooperation. The highlight of this cooperation was India's push for collaboration in the field of railways, especially China's high speed trains. China has the world's longest high speed rail (HSR) network with about 9676 km of routes in service as of June 2011 including 3,515 km of rail lines with top speed of 300 km/h. India is also keen to learn from China's development of its freight network, which was, two decades ago, in a similar position to India's. Today, China's freight traffic is four times that of India's. Both the countries agree to enhance communication, encourage bilateral cooperation on water conservation and clean water technologies.

On the flip side it was not clear as to how China proposes to moves ahead on the above agenda without reducing the wide trade deficit. Though the communiqué mentioned about the "pragmatic co-operation" but it did not define what was meant by "pragmatic co-operation". Apart from ensuring that their own economies continue to grow, neither was able to spell out what else they could do, either jointly or on their own, to manage the current bleak global economic situation which, both agreed, was worrisome.

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greater need to enlarge its share of the market in India. However, it would be noteworthy to mention here that New Delhi has still not agreed to sign a free trade agreement with China.

## II OBJECTIVES, STRATEGIES AND ACHIEVEMENTS

The SED was set up with the objective of increasing coordination on macro-economic policies and to provide a platform for both countries to leverage common interests and shared developmental experiences. The idea behind the dialogue was to look at the larger picture and go beyond trade. A separate Joint Economic Group dialogue, between both Commerce Ministers, has been set up to tackle trade issues, including the widening imbalance in China's favor.

This dialogue has come as an acknowledgement from both sides to correct the trade deficit. There is a growing concern on the Indian trade deficit to China which has increased from USD 9.1 billion in 2006-07 to USD 20.8 billion in 2010-11 and USD 22.79 billion in January- October, 2011. The bilateral trade between the two countries was nearly USD 60 billion in 2010-11. But India sold only USD 20 billion worth of goods while it bought USD 40 billion. Similarly, India exports to China for January-October, 2011 was USD 1.89 billion and China's export to India for January-October, 2011 reached USD 41.68 billion.

On the Indian side, there are concerns over the composition of exports and at the inability of Indian companies to break into the domestic Chinese market. Indian companies face problems with registration, the language barrier and the Chinese hierarchical business structure. Pharmaceutical and IT companies of India face a lot of restrictions and competition from the state owned companies in China which has been raised time and again by the Indian businessmen and the government. As a result, Sino-Indian trade has failed to develop in terms of content. There are limited Indian products that are imported from India to China and essentially these products are primary, resource based products and low technology manufactured products. On the other hand, Chinese export to India are more diversified and mainly high-value, finished products. However, there are also hurdles which Chinese companies face in expanding their operations in India. India's trade with China is expected to touch \$70 billion with the aim to increase it to \$100 billion by 2015. Finally there is global concern with China's exchange rate regime. In this context, the significance of the dialogue is much broader as it

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touches on macro concerns and opportunities on how to deal with long term issues.

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## III BEYOND BEIJING ROUND

The two powerful forces that dominate the economic interdependence between national economies are the scale of the economic activity between them and second their geographical proximity. China is already the second largest economy in the world and India is fast coming up Economy. If China and India are each becoming bigger and bigger in the world economy, and because they are geographically relatively close, it follows that their growth and closeness will likely drive higher and higher levels of trade, investment and economic interdependence between them. China became the largest trade partner with India in 2008. India-China trade hit USD 60 billion in 2011 and is poised to become USD 100 billion in 2015. This boom in trade can become the strongest rapprochement in India-China relations and eventually a 'strategic track' can be added to the existing SED.

The 2011 dialogue is testimony of the fact that a forum of this nature can help ease tension. The dialogue took place against the background of the developments in the South China Sea. The two countries had exchanged strong statements over the Indian oil company ONGC Videsh Limited to

take part in the oil exploration in the sector 127 and 128 in Vietnam. Thus a forum of this nature can provide an alternative platform to discuss bilateral issues and later eventually it can be used to discuss bigger issues.

India's rising trade deficit with China was highlighted because not talking about it would have a 'domino effect' over other area of co operations. The seven areas of cooperation illustrated that the scope of dialogue could be extended to include partnership in international forums creating opportunities for mutual understanding.

#### IV CONCLUSION

Twenty first century is described as the Asian Century, in which India and China are expected to play crucial roles. India and China have the potential for robust economic growth. It is recognized that China's hardware and India's software are complementary to each other. Sino-Indian Cooperation at the global diplomatic and economic level has also increased the significance of their bilateral relations. However, despite growing economic and strategic ties, there are several issues which continue to strain their relations.

The SED has come as a reflection of fact that both countries are capable of thinking beyond their boundary disputes, staple visa, all weather friendship ties between China –Pakistan, the current tension over the South China Sea and the Indian concern over China's assertiveness in Indian Ocean.

Hence it is imperative to understand the nature of Sino-Indian economic linkages and explore the challenges that confront them. Such dialogues can eventually create a cordial atmosphere for amicable solution to the other irritants in the bilateral relations. Soon "Benefits from stronger economic ties outweigh their differences." Efforts should be made to look beyond the agenda of the Beijing Dialogue and broaden the framework and themes and add depth to Sino-Indian relations.

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