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When China meets India

Chinese President Xi Jinping chose Russia when he made his first state visit. Now Li Keqiang, the new premier, has chosen India as the first stop of his overseas debut. Both choices echo the policy of building “new big power relations”, a phrase recently minted by the incoming leadership.

But what exactly does this “new big power relations” mean for China and India?

The two nations are so close to each other, and yet so unfamiliar. It is almost as if China comes from Mars, and India comes from Venus. China and India share a boundary of more than 2,000 kilometres, separated by the snow-capped Himalayas.

Before Li Keqiang’s visit to India, an age-old boundary dispute in the western Himalayas flared up in mid April, when both India and China moved more troops in the area. Indian external affairs minister Salman Khurshid believes that this boundary standoff is just an “acne than can be addressed by simply applying an ointment”. He is probably correct, yet it makes one wonder at what can only be described as a “juvenile” exercise between two countries, two ancient neighboring civilizations that boast of a five thousand year old history.

Economic cooperation has always been conveniently called in to smooth over border disputes. For those involved in trade and investment, the border dispute is insignificant. Bilateral trade between the two increased from \$2.9 billion in 2000 to around \$80 billion in 2012.

China is now the third largest partner for India’s exports and the largest source for India’s imports. India is the seventh largest partner for China’s export and 20th largest partner of India’s imports. Leaders of both countries have confidently proposed the goal of increasing bilateral trade to \$100 billion by 2015.

By our estimation, the bilateral trade between China and India may reach \$500-700 billion by 2020.

Bilateral investment has, also, increased significantly after 2000. China's direct investment in India has increased seventeen fold from 2006 to 2011, India's investment in China also increased rapidly from 2000 to 2008, but declined after the global financial crisis.

The economic relationship between China and India, however, is quite asymmetric. India runs a wide trade deficit with China, which jumped to \$27 billion in 2011 from \$ 4.3 billion in 2006. And bilateral investment, in particular, is insignificant, considering the two are neighbouring emerging economies.

India's investment in China is around 0.01-0.05 per cent in China's overall foreign investment, and China's investment in India only accounts for around 0.2 per cent in India's foreign investment. Warring about the increasing trade imbalance with China, India has frequently initiated anti-dumping investigations on imports from China. On the other hand, Chinese companies frequently complain about India's discriminative policy against Chinese investment.

It is in this perspective that the Chinese Premier's visit takes centre stage.

Li Keqiang's Delhi visit provides a golden opportunity for both countries to script a fresh and more positive chapter in China-India relations and must not be squandered away.

It can't be over-emphasised that the foundations to forge stronger ties between Beijing and New Delhi should be based on the comparative advantages of both countries.

China's manufacturing sector is very competitive, even by international standards. But with rising labour costs in China, and the policy of "going abroad", which encourages Chinese companies to invest more aggressively in overseas markets, more and more Chinese companies will increase outbound investment.

India can seize this opportunity to encourage Chinese investments. The main benefit of having more Chinese investment, is not acquiring cutting edge technologies, but creating more job opportunities, especially for unskilled labour.

Another key area for a China-India focus that has huge potential is infrastructure investment. In recent years, the infamous “Made in China”, has had great challenge from the new label- “Built by China”.

The unprecedented scale of a new sort of development in the last three decades has characterised, what some have termed the “China Miracle”, again highlighting the importance of investment. Travelling around China, you will see grand highways, high-speed railways, airports, and fancy modern buildings mushrooming everywhere.

India has also similarly stressed on the importance of investment in achieving growth. According to India’s Twelfth Five Year Plan, investment will increase to \$1.2 trillion, which accounts for 8-8.5 per cent of it’s GDP. Such an ambitious goal needs to be laced with the support of foreign investment. India needs to expand dramatically the sources and volume of available infrastructure financing.

With the sharp decline of outbound investment from the US and Europe after the global financial crisis, India has to rely more on South-South cooperation, and China should be its most logical partner. India-China bilateral or multilateral infrastructure investment funds can be established to invest in such areas as energy, traffic, telecommunication and urban construction.

If China is called the ‘world factory’, India is the ‘world office’. India has upgraded its very dynamic service sector, especially in the IT industry, significantly since the year 2000. India also has its niche in the pharmaceutical sector for India’s \$26bn generic drug industry supplies much of the affordable medicine used in the developing world.

Curiously enough, China’s new march of structural reforms also emphasises the development of its service sector. IT and healthcare are among the priorities of the reform agenda for the new Chinese administration. It will be quite amazing to see what kind of cooperation China and India can clinch on these areas. A joint endeavor here would surely reach commanding heights for a new kind of industrial revolution.

Both countries have a trump card in the form of a large pool of high quality, yet still relatively low-wage, engineers and scientists, and the boost of large domestic markets. It would not be surprising then to see China and India take the leap-frog to win the competition in many high technology sectors.

However, there are crucial issues to tackle before unleashing the huge potential of mutual cooperation between the two growth dynamos. For starters, India has to build a more mature manufacturing base, and China has to open its service sector.

A full-fledged multi-paradigm cooperation scheme between China and India will have far-reaching tectonic effects, and place the China-India relations in a different orbit. It can also pave the way for more strident coordination in international and regional affairs between the two most important powers in the region.

It will be a blessing on Asia and the whole world if the two neighbours can get on well and respect each other's concerns.