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China-India Strategic Economic Dialogue:

Avoiding Unavoidables?

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Bilateral economic ties between China and India have improved rapidly. Both countries are attaching considerable significance to their economic relationship. This is evident from the decision to hold an annual strategic economic dialogue (SED). The first SED was held in Beijing on 26 September 2011. It focused on several areas where the two countries can meaningfully collaborate such as infrastructure development, energy efficiency and water conservation. However, it avoided discussion on barriers to market access that exporters and service providers from the two countries continue to face in each others' domestic markets. The paper argues that future SEDs should discuss possible ways for removing these barriers. Till these restrictions persist, growth in bilateral economic engagement will continue to face restrictions.

The bilateral economic relationship between China and India is gradually assuming significant proportions in scale and scope. Rapid growth in trade has been a key driver of the relationship. Having already crossed US$60 billion, trade is expected to increase to US$100 billion, well before the target date of 2015.[2] Reaching US$100 billion will not make the trade the largest bilateral trade relationship in the world. But it will still be of a significant economic size, almost as much as the economic size of Vietnam and bigger than those of Iraq and Morocco.

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2 Joint Communiqué of the Republic of India and the People's Republic of China, 16 December 2010, Ministry of External Affairs, India; http://www.mea.gov.in/mystart.php?id=100016879&pid=1921 Accessed on 15 November 2011.

It is difficult to estimate the exact value of bilateral trade since data on trade in services is not available. There are also differences between trade figures released by national agencies from both sides: General Administration of Customs in the People's Republic of China and the Directorate General of Commercial Intelligence and Statistics (DGCI&S) in India[3]. In spite of these differences, however, there is no doubt about trade accelerating rapidly towards the US$100 billion mark, as recently endorsed by India's Commerce Minister Anand Sharma.[4]

For both countries, the bilateral economic engagement is being accepted as an increasingly significant relationship. For India, the relationship is particularly noteworthy with China becoming its second largest trade partner, a long distance ahead of the US. During the year 2010-11, India's bilateral trade (in goods) with China was US$63.1 billion, which was 38 per cent more than India's bilateral trade of US$45.6 billion with the US.[5] Greater trade with China and the latter's emergence as one of India's topmost trade partners augurs well for India's economic prospects as deeper commercial linkages with the world's fastest growing and largest emerging market implies greater opportunities for the Indian economy. At the same time, it is also a strategic challenge for India to keep up the economic tempo in bilateral ties, since this is a rare occasion when it has to balance good economic ties with lukewarm political ties.

For China, on the other hand, India is beginning to emerge as a key market in the Asian region, a market that by virtue of rising consumer incomes offers Chinese producers alternative options at a time when sluggish demand from Western markets is slowing exports and reducing trade surplus. Reducing surplus and making its trade with the rest of the world more balanced is a key objective of China's current macroeconomic policies. However, for ensuring a stable move towards balanced trade, it is preferable to bring down the surplus in a calibrated fashion. Sudden drops in exports from demand fluctuations, while reducing trade surplus, might mean adverse prospects for export-oriented manufacturers and enterprises. China would prefer a steady growth in exports, while expanding imports, for reducing the trade surplus. And this is where a country like India with a wide consumer base and relatively low costs for shipping goods compared to the Western markets, becomes an attractive option for China.

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3 Trade statistics for China are compiled on the basis of calendar year and for India on the basis of financial year. Bilateral trade, as reported in China Statistical Yearbook (2010) is US$43.4 billion. The corresponding figure for 2009-10 reported by the Department of Commerce, Ministry of Commerce and Industry, India, is US$42.4 billion. The figures, however, are for merchandise trade only. See http://www.stats.gov.cn/tjsj/ndsj/2010/indexeh.htm and http://commerce.nic.in/eidb/iecnttopn.asp. Both accessed on 15 November 2011.

4 'India China to achieve Trade of US$100 billion by 2015 Chinese Firm to Invest Rs 2500 crore in Green Energy', Department of Commerce, Ministry of Commerce and Industry, Government of India. http://www.commerce.nic.in/pressrelease/pressrelease_detail.asp?id=2851 Accessed on 16 November 2011.

5 United Arab Emirates (UAE) was India's highest trade partner for the year with a bilateral trade of US$67.1 billion. See http://commerce.nic.in/eidb/iecnttopn.asp Accessed on 15 November 2011.

The importance that both countries are attaching to bilateral economic engagement is evident from their deciding to establish a strategic bilateral economic dialogue (SED). India is the only country other than the US with whom China has embarked on such a dialogue. The initiative was decided during the Chinese Premier Wen Jiabao's last visit to India in December 2010. The objective of the dialogue, as declared in the Joint Communiqué issued on the occasion, was ‘to enhance macro-economic policy coordination, to promote exchanges and interactions and join hands to address issues and challenges appearing in the economic development and enhance economic cooperation’.[6]

The First Bilateral SED

The first bilateral SED between China and India took place in Beijing on 26 September 2011. The Indian delegation was led by the Deputy Chairman of the Planning Commission, Mr Montek Singh Ahluwalia, and the Chinese delegation was led by Mr Zhang Ping, Chairman, National Development and Reform Commission (NDRC).

The SED was keenly watched not only because it was the first of its kind. The dialogue took place at a time when the international community was struggling (as it still is) to find a solution to the debt crisis in Europe. There were expectations that both countries would discuss the situation in Europe and come out with their views on the same. The official minutes of the SED does mention both countries taking note of the world economic situation and the risks in the outlook, particularly those involved with sovereign debts in major developed economies, in an obvious reference to the crisis in Europe. However, both countries refrained from suggesting anything beyond the known and obvious and avoided offering any clues on whether they were considering extension of financial assistance to Europe[7].

The SED focused on a host of issues pertaining to common concerns, where both countries can look forward to major takeaways from each other's experiences. Energy efficiency and conservation, along with environmental protection, featured prominently in the discussions. These were expected themes of discussion given the similarity of problems faced by China and India in accessing energy and improving its end-use efficiency and also the increasing levels of water and air pollution along with challenges of tackling climate change. The decision to cooperate actively in renewable energy and environment expands the existing institutional cooperation efforts between the two countries on environment, eco-systems and bio-diversity[8]. The SED also focused on water conservation and development of clean water technologies. Infrastructure development too featured in the discussions as an area where both countries can collaborate with particular focus on railways. Finally improving investment environment between the two countries for facilitating greater cooperation

6 As in 2 earlier.

7 http://southasiamonitor.org/detail.php?type=pers&nid=1138. Accessed on 22 November 2011.

8 See Palit, Amitendu (2012), China India Economics: Challenges, Competition and Collaboration, Routledge, UK and US; Chapter 2, page 37, for details on earlier collaborations.

between businesses on both sides was also discussed though the specifics discussed in this respect are not available from the minutes. The next SED will be held in India in 2012.
The SED marks a positive beginning to consolidation and expansion of economic engagement between two of Asia's largest economies. However, such expansion cannot afford to overlook a few issues that remain unresolved and can obstruct economic exchange. These primarily relate to access (or the lack of it) in each other's domestic markets and are not confined only to difficulties faced by Chinese telecom and power equipment exports to India and pharmaceutical and film exports by India to China. The SED was noticeable for bypassing these contentious issues.

Barriers to Trade: The Unfinished Agenda

Despite a remarkable acceleration in bilateral trade in recent years, it still remains difficult for exporters from both countries to gain access in each other's domestic markets. This has much to do with the restrictions retained by both countries for protecting domestic enterprises in different sectors.

India’s average tariffs on manufactured (non-agricultural) imports are 10.1 per cent, which are slightly higher than those of China’s (8.7 per cent). India, however, has a ‘bound’ rate of 34.1 per cent, which is much higher than the corresponding rate of 9.2 per cent for China. A higher ‘bound’ rate allows India a much wider band for raising its tariffs if it wants to. This makes room for potential access cramped in the Indian market.

Chinese manufacturing exports in particular have been subject to extensive anti-dumping action from India further limiting their market access. During the period 2002-2010, India has initiated 96 anti-dumping actions against China covering almost 200 tariff lines[9]. Chinese exports facing anti-dumping actions include organic and inorganic chemicals, photographic products, tanning extracts, plastic articles, rubber products, wood, paper and ceramic products, textile products, iron & steel, glass and aluminium products, machinery & mechanical appliances, electric machinery, vehicle parts and optical instruments. High incidence of anti-dumping duties has been driven by the Indian industry's worries over loss of space in the domestic market from the unending deluge of cheap Chinese exports. The growing imbalance in goods trade with China has further accentuated these anxieties.

While tariffs and anti-dumping duties are measures restricting access of Chinese exports in the Indian market, Indian exporters face a different variety of restrictions in the Chinese market through non-tariff barriers (NTBs). These NTBs include technical standards, safety requirements, phyto-sanitary measures, certification procedures, environmental risk analysis, quarantine permission requirements, delays in obtaining import licenses, customs procedures, re-inspection and packaging regulations.

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9 *Ibid*; Chapter 3, page 66.

Pharmaceuticals, one of India's major export interests in the Chinese market, have been particularly affected by NTBs, as have been fish, rice and vegetables. Machinery exports face competitiveness problems due to subsidies offered to domestic producers. Wind and non-conventional energy suppliers encounter problems of local content requirement as well as difficulties of complying with indigenous intellectual property right (IPR) regimes[10]. Finally, quotas on foreign language films have prevented distribution of Indian films in the Chinese market.

Despite integrating with the world economy, both China and India have been sensitive to interests of their indigenous enterprises and have tried to ensure that they do not lose their competitive advantages against foreign products or service providers. As a result, China and India continue to limit access to their domestic markets, either through high tariffs or other restrictive regulations. While these limitations are usually generic and affect all exporters or service providers, there are occasions when Chinese (or Indian) producers of specific items and services are affected relatively more. These are for those products or services where Chinese (or Indian) producers have distinct comparative advantages in the Indian (or Chinese) markets respectively. For Chinese producers, the relevant products, for example, could be chemical and machinery exports, while for Indian exporters, pharmaceutical and entertainment products (e.g. films) are two of the relevant products.

The SED did not touch upon the specific territories where both countries are facing problems of access in each others' economies. This could be on account of the effort on part of both sides to avoid relatively difficult matters and focus on simpler, non-controversial and potentially collaborative areas. While the latter must feature in the SED, it can hardly afford to exclude the more contentious issues of market access. Unless access issues are sorted out, business facilitation and improvement of investment environment between the two countries will be difficult to achieve.

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[10] *Ibid*; Chapter 3, page 68-70 for more details.