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Wen Jiabao in India: Mission Business

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Abstract

The Chinese Premier's recent visit to India emphasised on developing closer business ties with India in different areas. Several agreements were signed, including in banking and finance and green technologies. The paper argues that despite both countries deciding to increase bilateral trade and addressing the current imbalance, the latter might persist due to low competitiveness of Indian exports in the Chinese market and the Indian industry's inability to compete with Chinese imports.

Chinese Premier Wen Jiabao visited India five years and eight months after his last visit in April 2005. Much has changed during these years. No change, however, has been as remarkable as the rapid acceleration in economic ties between China and India. Between the Premier's two visits, Sino-Indian merchandise trade has increased from US$12.7 billion (2004-05) to US$42.4 billion (2009-10).[2] Overall trade figures will be even larger by including bilateral services trade, on which, unfortunately, no official estimates are available. The almost fourfold increase in trade during the last five years has led to China becoming India's largest trade partner and India becoming one of China's major trade partners.

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[2] Export-Import Data Bank, Ministry of Commerce, Government of India, http://commerce.nic.in/eidb/iecnt.asp. Accessed on 18 December 2010.

The two countries have been among the fastest to recover from the deleterious impact of the global financial crisis of 2008 and have outpaced the rest of the world in their growth rates. They have been collaborating in global forums on various common concerns such as formulating policies for addressing climate change, getting the Doha Development Agenda (DDA) of the World Trade Organization (WTO) back on track, and shaping the global financial and regulatory architecture. There was therefore little doubt that the Chinese Premier's visit will focus on exploiting the opportunities arising from robust upturn in growth in both countries. Indeed, the 'business' thrust of the visit was evident from the size of the delegation accompanying the Premier: around 400 delegates representing more than 250 Chinese firms including top-notch companies such as Shanghai Electric, SinoSteel, Huawei, ZTE and Bank of China – all looking forward to doing business with India.

And business it was that dominated the visit. Both countries decided to lift bilateral trade to US$100 billion by 2015.[3] Going by the rate at which bilateral trade has been increasing in recent years, the target might well be achieved before the chosen date. Both countries also decided to work together in infrastructure, telecommunications, investment, finance, information technology and environmental protection for achieving 'win-win' outcomes. Forty-nine Memoranda of Understanding (MOUs) were signed between Chinese and Indian business entities during the visit. Two key ones among these were between the Federation of Indian Chamber of Commerce and Industry (FICCI) and China Chamber of Commerce (CCC), and the Reserve Bank of India (RBI) and the China Banking Regulatory Commission (CBRC) respectively.

The Chinese Premier's visit will be remembered for facilitating closer integration of banking and financial sectors of the two economies.[4] The Industrial and Commercial Bank of China (ICBC) – one of the largest global lenders by market value – has applied for setting up branches in India, while other leading Chinese banks such as Bank of China, China Construction Bank and Agricultural Bank of China are expected to do so in the future.[5] Existing Indian banks in China [eg. State Bank of India (SBI)] are likely to expand operations.[6] The decision to set up an India-China CEO's forum should also help in the better understanding of business prospects and

[3] *Joint Communiqué of India and China* (16 December 2010), http://netindian.in/news/2010/12/16/0009257/joint-communique-india-china. Accessed on 17 December 2010.

[4] 'India, China gun for $100 bn trade by "15"'; *Financial Express* (17 December 2010), http://financialexpress.com/news/india-china-gun-for-100-bn-trade-by-15/725637/0. Accessed on 17 December 2010.

[5] 'ICBC applies to RBI as China Banks line up for India foray', *Financial Express* (17 December 2010), www.financialexpress.com/news/icbc-applies-to-rbi-as-china-banks-line-up-for-india-foray/725421/0. Accessed on 18 December 2010

[6] The SBI currently has a branch in Shanghai and a representative office in Tianjin. It is planning to upgrade the Tianjin office into a branch and open a representative office at Guangzhou. See 'SBI to open office in Guangzhou', *Business Line* (16 December 2010), www.thehindubusinessline.com/2010/12/17/stories/2010121752780400.htm. Accessed on 18 December 2010.

practices between the two countries. In an expected affirmation of the Sino-Indian collaboration on mitigating and adapting to climate change, both countries signed an agreement on cooperation in green technologies.[7]

It is evident that China has begun playing a critical role in India's infrastructure. The power sector is witnessing active participation of China in augmenting capacities. The agreement between the China Development Bank and Reliance Power for a US$1.1 billion credit facility for the latter's Sasan thermal power project is a key example.[8] India has evinced keen interest in Chinese investments in roads and railways. Manufacture of telecom equipment is also an area where Chinese producers are active in the Indian market. Huawei's plans to upgrade production and research facilities in India (US$2 billion for the research unit at Bangalore and the manufacturing arm at Chennai) underline its vision of playing a more expansive role in the Indian market. On the other hand, the nascent cooperation in banking and finance should be exciting for India as these are segments where its competitive advantages are strong and backed by effective modern regulations. Though policies governing foreign financial service providers are still not as liberal in China and India as they are in advanced economies, both countries can work on these issues on a bilateral basis for expediting progress.

Considerable interest has been generated on the proposed launch of the bilateral Strategic Economic Dialogue.[9] The dialogue is expected to address macro-economic policy coordination, and issues and challenges in development. Though the fine-print will emerge over time, the dialogue might subsequently address exchange rate and interest rate policy coordination, among other matters, as these directly influence export competitiveness of both countries in each other's regional and global markets. Discussions might also include coordination of crude oil imports of both countries – as deliberated during Premier Wen's visit – for avoiding demand-driven volatility in global crude prices along with joint bidding for acquiring hydrocarbon assets in third-country markets.[10]

India's primary concern in the bilateral economic relationship is the trade imbalance. Widespread apprehensions voiced by different quarters over India's trade deficit with China might convey the erroneous impression that trading with China is the main reason behind India running a deficit in its external trade. Little attention in this context is paid to the large

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[7] As in 2 earlier.
[8] 'India, China cement ties with 49 pacts', *Financial Express* (17 December 2010). www.financialexpress.com/news/india-china-cement-ties-with-49-pacts/725349/0. Accessed on 18 December 2010.
[9] As in 2 earlier.
[10] 'India, China could join hands to check oil spike', *Financial Express* (17 December 2010), www.financialexpress.com/news/india-china-could-join-hands-to-check-oil-spike/725891/0. Accessed on 18 December 2010.

contribution of crude oil imports in enlarging the trade deficit, hardly any of which are imported from China. Nonetheless, both sides have committed to correcting the imbalance.

The key to balanced trade is increasing India's exports. China has agreed to encourage Indian agricultural, pharmaceutical and service exports in its domestic market.[11] These and other Indian exports will increase if non-tariff barriers (NTBs) in China's domestic market come down and they also become more competitive. While NTBs can probably be reduced by negotiating with the Chinese government, competitiveness of Indian exports in the Chinese market vis-à-vis similar exports from Southeast Asia and other competing countries cannot be increased in the same manner. Thus despite reduction in NTBs, Indian exports might not experience substantial increase.

On the other hand, Indian industry must also note that till now they have successfully lobbied against Chinese imports and precipitated anti-dumping measures largely because China is yet to be treated as a 'market' economy by the WTO. This will, however, change from 2016. It is important for the Indian industry to reconcile to the fact that Chinese imports will be as much a part of the Indian market as they are in most other markets of the world. Instead of clamouring for protection and lobbying against Chinese imports, it is more sensible to lobby for domestic reforms that will reduce production and operational costs, and make Indian exports more efficient and competitive.

As India struggles to analyse the pluses and minuses from the Chinese Premier's visit, it is clear that China wants to do business with India. Unresolved borders cannot and should not hold back two of the world's largest economies from exploiting mutual synergies. That is the message emanating from Premier Wen's visit. Will India play ball?

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[11] 'Trade target set at $100b', *China Daily* (17 December 2010), www.chinadaily.com.cn/bizchina/2010-12/17/content_11716305.htm. Accessed on 18 December 2010.