

# ISAS Brief

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## China-India Strategic Economic Dialogue Gains Momentum

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The 2<sup>nd</sup> China-India Strategic Economic Dialogue (SED) took place in Delhi on 26 November 2012. Coming at a time when the global economic outlook is hardly bright and both countries are visualising modest economic outlooks but when bilateral trade is growing at a fast clip, the SED was awaited for its decisions on future bilateral economic cooperation. While not announcing any radical initiatives, the Dialogue has built up on the momentum generated during the first meeting in Beijing in September 2011 by focusing primarily on cooperation in infrastructure and energy.

The SED has some interesting features. The first is in its being only the second such bilateral economic dialogue that China has with any country other than the US. The second is in its excluding bilateral trade and trade-related issues as an area of focus and concentrating more on policy co-ordination and infrastructure cooperation. The third and final interesting feature is in it being co-ordinated not by economic ministries from either side, but by the National Development and Reform Commission (NDRC) from China and the Planning Commission from India.

Having a SED with India underscores the importance China attaches to economic relations with India. To that extent, the SED confirms the deepening of economic linkages between the two countries and the priorities that both countries attach to their economic ties. By keeping trade out of its ambit, the SED displays the inclination to focus on non-trade aspects of the

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economic relationship. Despite sharp increase in bilateral trade, currently at around US\$ 75 billion and well on its way to achieving the target of US\$ 100 billion by 2015, contentious issues, pertaining to restricted market access for specific commodities and services on either side, remain unresolved. These issues are being separately looked into by the Joint Economic Group (JEG). The JEG, set up in 1989, had its 9<sup>th</sup> meeting in Delhi in August earlier this year. Clearly, the SED does not wish to be burdened by trade issues, probably due to the apprehension that inclusion of trade in the agenda will lead to its dominating discussions leaving less space and scope for exploring other areas of economic cooperation. Also, neither the NDRC nor the Planning Commission is mandated to deal with trade issues and policies.

The NDRC plays an important role in policy-making and economic strategy formulation in China, particularly macro-economic policies, and its role has become increasingly significant following the opening up and global integration of the Chinese economy. This is in contrast to India, where macroeconomic policies are determined largely by the Ministry of Finance and the Reserve Bank of India, with the Planning Commission assuming a more indicative role in macro-economic policies, as opposed to a decisive role, and focusing largely on social and human development. Infrastructure development remains a major priority of the Planning Commission, as much as it is with the NDRC, and there is little surprise in infrastructure being a major subject of discussion in the SED, in terms of focus on high-speed railway development and cooperation in non-conventional energy (wind and hydro-electric), energy efficiency and power equipment manufacturing. Climate change and environmental protection - other important subjects discussed in the SED - are also natural turfs for both the NDRC and the Planning Commission.

During its last meeting in Beijing in September 2011, the SED set up working groups for examining specific issues. These groups have been set up on policy coordination, infrastructure, energy, environmental protection and hi-technology. In the Delhi meeting, the groups exchanged views on several issues and discussed collaborative efforts. Some of the important areas and initiatives discussed include:<sup>2</sup>

- Investment environment in both countries
- Agreement to do joint studies on planning cooperation and skills development for employability
- High-speed rail development, heavy haul and station development
- Possibility of Chinese power equipment manufacturers setting up service centres in India
- Joint development of testing protocols and standards in energy efficiency

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<sup>2</sup> 'Agreed Minutes of the 2<sup>nd</sup> India-China Strategic Economic Dialogue- November 26, 2012, New Delhi', Embassy of India, Beijing, 26 November 2012; <http://www.indianembassy.org.cn/newsDetails.aspx?NewsId=383> (Accessed on 30 November 2012).

- Joint studies on IT/ITES markets and possibility of working together for developing common standards for digital TV and mobile communication technology.

The Dialogue is clearly trying to focus on areas where both countries have the possibility of cooperating for developing joint programmes. Railways, energy, environment and IT appear to be the four major areas, where considerable efforts are being devoted. It is also encouraging to note that the Dialogue is beginning to assume a multi-agency dimension by stretching beyond the NDRC and the Planning Commission – by including operational ministries such as the Ministries of Railways from both countries and also influential industry bodies such as the National Association of Software and Service Companies (NASSCOM) from India and the China Software Industry Association (CSIA) from China. The Railways ministries, and the NASSCOM and CSIA, have entered into MOUs for greater technical and functional cooperation and are expected to work out long-term work plans.

As a mechanism, the SED, might, over time, become a strong confidence-building-measure (CBM) between the two countries. Economics has been the bright spot in China-India ties and both countries are aware of its role in stabilising what in some other respects is a rocky relationship. But notwithstanding the robust growth in trade, including land-routed trade through the Nathula Pass between Sikkim in India and the Tibet Autonomous Region of China following addition of more items, a lack of understanding regarding each other's domestic economic regulations and market conditions constrains greater economic exchanges and cross-border investments. The SED's efforts in this respect for reducing the information asymmetry are noticeable. But such efforts need to be matched by equally vigorous efforts for resolving the market access issues in trade. The JEG and the SED have to act together and in tandem for putting the bilateral economics on an even faster track.

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