

ISAS Brief

No. 46 – Date: 22 January 2008

469A Bukit Timah Road
#07-01 Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isasijie@nus.edu.sg
Website: www.isas.nus.edu.sg



Sino-Indian Trade Relations: Understanding the Bilateral and Regional Implications

Deep K Datta-Ray*

When Indian Prime Minister Manmohan Singh spoke in Beijing, during his visit from 13 – 15 January 2008, of a ‘historic need’ for India and China to work together, he was looking beyond the border dispute that has plagued relations for half a century to freeing millions of the world’s poorest from disease and economic deprivation. Paradoxically, this goal, and not any misplaced nationalistic or protectionist sentiment, forced him to decline Chinese requests for a free trade agreement (FTA).

The implications for the Association of Southeast Asian Nations (ASEAN) and, in particular, Singaporean economic and security concerns are significant. Once expected to weave India, China and the region into an inextricable economic web that rendered conflict unthinkable, trading relations are now under threat from a growing imbalance which directly affects India’s hinterland. Between January and November 2007, India’s trade deficit with China widened to US\$9.02 billion, compared to the US\$843 million surplus New Delhi enjoyed as recently as 2005. India exports primary products, mainly, iron ore. Nearly half of Chinese exports to India are manufactured goods which New Delhi fears will affect incipient local industries that would otherwise have absorbed India’s rapidly growing educated young. New Delhi fears unemployment might lead to civil unrest. The “deficit is tolerable only for a finite period, beyond which we risk seeing a ‘positive’ of the relationship assuming negative tones,” warns India’s Ambassador to Beijing, Nirupama Rao.

For all its size and population, India, like ASEAN, might also feel it is coming under the looming shadow of a vast economic power. Singapore Minister Mentor Lee Kuan Yew’s explanation of why he attempted to engage India long before India expressed an interest in the region is revealing in this context. China threatened regional security in the 1950s, 1960s and 1970s by supporting guerrilla movements. From the 1980s onwards, China has been burgeoning into an overpowering economic force. “We don’t want to be overwhelmed and become like Laos or Cambodia!” Minister Mentor Lee said in a recent conversation. The statement echoed his earlier comments that India alone had the girth and weight to balance China. No other country can hold the other end of the see-saw, he said as long ago as 1962. Other ASEAN leaders may be less forthright, but this is the only reason why Indonesia’s

* Mr Deep K Datta-Ray is a D.Phil candidate at the University of Sussex. He is currently on attachment to the Ministry of External Affairs, New Delhi, India. This brief was prepared for the Institute of South Asian Studies, an autonomous research institute within the National University of Singapore. Mr Datta-Ray can be reached at dattaray@gmail.com.

former President Suharto so readily agreed in 1995 to India becoming a full ASEAN dialogue partner.

Indian diplomacy is not, however, designed to balance China. Dr Singh allayed fears of a trade war when he invoked a phrase familiar to ASEAN and said problems would be solved in the “Asian way”. His definition of ‘avoiding confrontation and building trust, confidence and consensus’ almost reiterates what ASEAN calls the *musyawarah dan muafakar* (consultation and consensus) process. India expects its discussions in the East Asian Summit and other fora to result in an open and inclusive economic architecture in terms of trade in goods and services and the flow of investment and human capital in an area encompassing India, China and ASEAN. The impetus is local – in terms of creating infrastructure and jobs in the Indian hinterland – but the realisation depends on India further integrating into Asia’s economic and security architecture.

The talk of ‘multifaceted’ relations has been translated into a remarkable shift in military relations. For the first time last year, both countries held joint anti-terrorism exercises and India will host the second round of exercises this year. The Manmohan Singh-Wen Jiabao Joint Declaration points to greater co-operation with spill over effects for the region. The Declaration says that, “The two sides take a positive view on each other’s participation in sub-regional multilateral cooperation processes between like-minded countries, including the South Asian Association for Regional Cooperation, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation and the Shanghai Cooperation Organisation.” That points to regions like Southeast Asia where Sino-Indian interests not only touch but overlap, repeating the historical process that gave Indochina its name.

Singapore could become a key-player in this interaction between the Asian giants. In terms of business, Singapore could be a facilitator for rapidly expanding Sino-Indian trade. This year’s US\$20 billion target was reached two years ago and the revised target of US\$40 billion by 2010 is also likely to be achieved two years ahead of schedule. As an established player in China, Singapore is strengthening trading links with India. Negotiations are currently underway to revise the groundbreaking Comprehensive Economic Cooperation Agreement (CECA) which has played a major role in India outstripping even China to become Singapore’s fastest growing trade partner amongst the major economies. Post CECA, exports from India to Singapore increased to US\$5.4 billion, a growth of 35.6 percent. Exports to Singapore accounted for 5.26 percent of India’s total exports during 2005-2006, which meant a more than a two-fold increase from 2.3 percent in 2002. Singapore is well positioned to facilitate trading links between the regional giants. With its special links with China, Singapore might even be able to convince Beijing not to allow trade to join the contentious border question as a ‘negative’ in surging relations. After all, by his own admission, Minister Mentor Lee succeeded in convincing Deng Xiaoping that it was not good politics to export revolution to Southeast Asia.

Admittedly, questions of nationalism rule out a quick resolution of the border dispute. But this does not affect Indian consumption patterns. The share of Chinese imports in India’s global import basket rose from four percent in 2001 to 9.4 percent in 2007. That China’s exports to India today amount to 10 percent of India’s entire industrial gross domestic product indicates China’s ability to sell cheap and the openness of ordinary Indians to foreign goods. From under one percent in 2001-02, today China supplies nearly 75 percent of India’s tubes and pipes. Similarly, in the area of transmission apparatus for radio and telephony, imports from China have jumped from 12 to 50 percent in a few years. In the case of

automatic data processing machines, China's share in India's imports has risen from 12 to 35 percent. Pragmatic and practical, Indians spurn, without a second thought, locally made goods for cheaper Chinese alternatives. The fact that these are allegedly 'dumped' on India does not stop anyone buying them. 'Dumping', defined as selling goods abroad at a cost lower than production, is only possible with state complicity as it involves a complex transfer of profits from a successful sector to a failing industry. It should be welcomed by Indians because, in effect, the Chinese government is indirectly subsidising a rise in Indian living standards!

Nevertheless, shrill cries for a tax on imports from China, amounting to a tariff barrier, pierce the Sino-Indian discourse. Respected national daily newspapers warn darkly of a 'dependency syndrome' in 'critical areas'. Indian trading associations complain that India occupies a miniscule 1.3 percent of China's global imports. But these are the voices not of India's poor who welcome Chinese products by buying them but of pampered and protected industrialists who see with alarm their long-captive markets now slipping away. India's elite is learning that globalisation does not discriminate against anyone. It bestows free choice on consumers. The migration of industries to the underdeveloped world checks price-inflation in the rich world – a phenomenon that is being replicated within the underdeveloped world.

As an Oxford and Cambridge educated economist, Dr Singh is well versed in the theories and practices of free trade. He demurred about an FTA not because he opposes free choice, but because China has not reciprocated in opening its market to Indian goods. That might deprive Indian exporters of a market but the real losers are China's consumers and manufacturers. If the Chinese government does indeed subsidise cost-inefficient industries with profits earned in other sectors, then it is setting a dangerous precedent. Such practices skew the market and rob it of its fundamental virtue – the ability to convey information about choices efficiently to all quarters. If there is a shock in one sector of the Chinese economy – as is likely with the slowdown of the United States economy and falling Western consumer spending – then shockwaves will reverberate throughout the Chinese economic system.

Only the political courage to let the market run its course can contain the damage. Pharmaceuticals are a case in point. India boasts the largest number of United States Food and Drug Administration-approved plants outside the United States. Pharmaceutical is a core Indian competency and exports to Western markets have grown by 19 percent year-on-year for the last three years, racing ahead of the world average growth rate of six percent. Yet, India's pharmaceutical exports to China have grown by just three percent from US\$94 million in 2002 to US\$109 million in 2005.

This failure to penetrate China is due to 'non tariff barriers' that manifest themselves in long and complicated registration procedures, prohibitively expensive drug import licences and inordinately protracted customs checks. Ultimately, even if a foreign firm enters China, the drug distribution system operates mainly through hospitals which, in practice, give preference to locally-produced drugs. The ultimate sufferer is the Chinese patient who is denied inexpensive, world class medicine.

As the 19th century British politician, Richard Cobden, wrote, 'Free trade is God's diplomacy and there is no other certain way of uniting people in the bonds of peace'. Nationalistic Indian voices which risk upsetting a relationship on which the future of one-third of humanity depends can be silenced if China matches India and lowers trade barriers. That would pave the way for the FTA Beijing wants. The ultimate beneficiary would be the common

man. The goodwill generated by a booming economic relationship might even prove a solvent for seemingly intractable problems like the border dispute. Southeast Asia's trade, investment and security only stand to benefit from closer Sino-Indian cooperation.

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