

ISAS Brief

No. 373 – 23 June 2015

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ISAS Symposium on Modi's Visit to China – Paper II

Maintaining the Economic Momentum¹

India's Prime Minister Narendra Modi's visit to China in mid-May 2015 helped maintain the economic momentum of recent years in Sino-Indian relations by expanding and deepening the collaboration between Chinese and Indian businesses and institutions. Mr Modi's announcement of e-visas for Chinese tourists was a major economic and strategic takeaway.

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Backdrop: Shifting Economic Dynamics

India's Prime Minister Narendra Modi's visit to China has come at a time when the Chinese and Indian economies are experiencing interesting shifts in growth trajectories. Though not experiencing a slowdown, the Chinese economy is contracting and is projected to settle down at a trend rate of growth of around 6.5-7.0 per cent in the medium-term. The Indian economy, on the other hand, is poised to grow by more than 7.0 per cent in the next few years. The backdrop to Mr Modi's first state visit to China was, therefore, a point of time in history

¹ This paper on Sino-Indian economic engagement is based on the author's presentation at the ISAS Symposium on Modi's Visit to China – organised in Singapore on 11 June 2015. The Institute of South Asian Studies (ISAS) is an autonomous research institute at the National University of Singapore.

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when the growth dynamics in Asia, and among the world's large emerging markets, are heading for significant changes.

China, along with the United States, Japan, Korea, Germany and France, is expected to play a significant part in Mr Modi's signature economic initiative, 'Make in India'. On the eve of the visit, there were expectations of Chinese businesses announcing their possible participation in the initiative through financial investments and technical collaborations. With outward Foreign Direct Investment (OFDI) from China increasing over the years, China is now among the major global sources of foreign investment. Prospects of high growth in India in the next few years, along with the presence of a pro-business government led by Mr Modi, were expected to be a major inducement for Chinese investors searching for opportunities for higher returns on their capital.

Deals and Agreements: Maintaining the Momentum

Several corporate deals were executed during Mr Modi's visit. Reportedly worth US\$ 22-billion, the deals involved major Indian industries like the ICICI Bank, IL &FS, Bharti Airtel, the Adani Group, Welspun, Eros Group, Wipro and Bhushan Power & Steel.³ Executed with China Development Bank, Industrial and Commercial Bank of China, Shanghai Film Corporation, China Film Group, China National Technical Corporation and the Guangzhou Port, the business deals cover a range of industries including electricity, steel, solar energy, port development and film production. Chinese financial institutions and businesses displayed keen interest in financing new energy capacities in India, both in conventional thermal power as well as solar energy. Indeed, India's energy sector is well poised to benefit from the credit extended by Chinese banks as well as the technical expertise of Chinese power producers.

The bilateral agreements signed by Chinese and Indian government agencies during the visit include a host of MOUs.⁴ The Indian agencies who signed these agreements include the Indian Railways, Doordarshan, NITI Aayog and the Indian Council for Cultural Research

³ 'Deals worth US\$ 22 billion signed during PM Narendra Modi's China Visit', *The Times of India*, 17 May 2015; <http://timesofindia.indiatimes.com/India/Deals-worth-22-billion-signed-during-PM-Narendra-ModisChina-visit/articleshow/47309538.cms> Accessed on 16 June 2015.

⁴ '24 Agreements signed between India and China during PM Modi's Visit', NDTV.com, 15 May 2015; <http://www.ndtv.com/cheat-sheet/24-agreements-signed-between-india-and-china-during-pm-modis-visit-763246> Accessed on 16 June 2015.

(ICCR). They signed agreements with the National Railway Administration of China, CCTV, National Development Research Centre and the Fudan University. Several Indian and Chinese cities signed MOUs on development of 'sister states and cities' (Karnataka- Sichuan, Chennai-Chongqing, Hyderabad-Xingdao and Aurangabad-Dunhuang).

Beyond these, two specific bilateral agreements are noteworthy. These relate to cooperation in vocational training and skills development for establishing the Mahatma Gandhi Institute on Skill Development and the establishment of a consultative mechanism on trade negotiations. The first is important from the perspective of the Modi Government's strong focus on building capacities for skills development in India, where Chinese experience can make a significant difference. The consultative mechanism on trade negotiations has not been spelt out. This is probably a response to the anxieties in India over the enlarging bilateral trade deficit. One would expect the mechanism to suggest ways and means for improving market access for Indian exports to China, particularly pharmaceuticals.

Takeaways: Strong B2B and G2G, New Efforts for P2P

With the dust settling on Mr Modi's visit, the takeaways on the economic front are not enormous. But at the same time, there is enough to conclude that the visit was not infructuous.

An important point to note is the continuation and deepening of the B2B (business-to-business) ties between the two countries. B2B ties have been critical in sustaining economic engagement between China and India. The momentum has been maintained as is evident from the large number of business deals signed. While there were no mentions of fresh large-scale Chinese investments in India, greater financial and technical collaborations in specific 'Make in India' sectors like thermal power, renewable energy, railways, construction, ports and media & entertainment are noteworthy. In this respect, Mr Modi's pitch for 'Make in India' in China has not been an entirely vacuous call. These are areas where the robust B2B engagement has been backed by greater G2G (government-to-government) initiatives as witnessed from the various MOUs signed. The synchronised up-scaling of B2B and G2G efforts maintains the upward economic trajectory that has been visible in Sino-India relations over the last few years.

During his visit, Mr Modi announced electronic visas for Chinese tourists to India.⁵ This made China the 77th country that India is extending the facility to. This was a significant Confidence-Building-Measure (CBM) aimed at not only increasing inflows of Chinese tourists to India, but also expanding people-to-people (P2P) contacts. The fact that he went ahead to announce the initiative despite objections from the Indian intelligence underlines the ‘risk’ he is prepared to take for securing strategic dividends. From both economic and strategic perspectives, this was one of the most significant takeaways from the visit.

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⁵‘At Tsinghua University, PM Modi announces e-visas for Chinese tourists’, rediff.com, 15 May 2015; <http://www.rediff.com/news/report/modi-in-china-at-tsinghua-university-pm-modi-announces-e-visas-for-chinese-tourists/20150515.htm> Accessed on 16 June 2015.