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INDIA-CHINA TRADE RELATION AND ITS CHANGING SCENARIO

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Introduction:

Since the late 1950s, relations between India and china have been fraught with tension and conflict. Yet the two countries have recently enjoyed a significant improvement in bilateral relations. The BRICs countries (Brazil, Russia, India, and China) have shared a common experience of rapid and substantive economic change over the last decade. While economic growth has had varied consequences for India's foreign policy, we focus on India-China relations, asking whether economic interdependent- dance could lead to more wide-ranging political cooperation between the two largest BRICs. This dyadic interaction is of great geopolitical significance: The two countries are home to over a third of the world's population, have nuclear arsenals, and have been involved in an actual shooting war with each other. Moreover, the India-China case study can help us understand how the rising economic power of the BRICs may affect global stability. In the last decade, India and China have enjoyed the best bilateral relations since the early 1950s. Could new economic ties be impelling this improvement in their relationship?

In this article, we examine the impact of economic factors on the strategic relationship between India and China. In this article's we briefly summarize the troubled history of China-Indian relations, provide a brief overview of the key changes in the Indian and Chinese economies in the last three decades, and concomitant changes in their political and diplomatic behavior. In the article's we lay out potential mechanisms linking economic interdependence and strategic de-escalation, examines the operation of these mechanisms in the India-China case. We conclude with our predictions concerning the future conduct of China-Indian relations.

China-Indian Relations:

India became independent two years before the Chinese Communist Party (CCP) secured power in China in 1949. India's first Prime Minister, Jawaharlal Nehru, initially conceived of a synergistic relationship between New Delhi and Beijing: Both countries had huge populations and immense developmental challenges, and were thus natural partners. China and India also shared a wariness of Western political meddling. India, in fact, was the first noncommunist state to formally recognize the People's Republic of China (PRC). In 1954, talks in Beijing between Premier Zhou Enlai and an Indian government delegation resulted in the signing of the *Panchsheel* Agreement, which formally envisioned "peaceful coexistence" between China and India.[1] India became independent two years before the Chinese Communist Party (CCP) secured power in China in 1949. India's first prime minister initially conceived of a synergistic relationship between New Delhi and Beijing: Both countries had huge populations and immense developmental challenges, and were thus natural partners. China and India also shared a wariness of Western political meddling. India, in fact, was the first noncommunist state to formally recognize the People's Republic of China (PRC). In 1954, talks in Beijing between Premier

Chou En Lai and an Indian government delegation resulted in the signing of the ***Panchsheel*** Agreement, which formally envisioned "peaceful coexistence". Between China and India (*Jain, B. M., 2004*).The India-China honeymoon of the 1950s began to show signs of strain by the latter half of the decade. In 1956, the CCP promulgated its first official map of China and the surrounding Area, rejecting the McMahon line (first demarcated by the British colonial authorities in 1914). The map showed large swathes of Indian Territory within the borders of China. The Indian government reacted angrily, accusing the CCP of arbitrarily extending China's borders. Diplomatic and economic relations between Beijing and New Delhi collapsed after the 1962 war. In the three subsequent decades, bilateral trade figures dwindled to negligible amounts. In 1980, Indian Prime Minister met with the Chinese premier, reaffirming her desire to maintain friendly ties with Beijing India also indicated that the Chinese aspiration for greater economic cooperation. China and India granted one another Most Favored Nation (MFN) trading status in August 1984.Nonetheless, as late as 1990, bilateral trade amounted to a mere $190 million(*The Economist, November 6, 2004*).In sum, numerous diplomatic efforts have been made to expand China-Indian rapprochement over the last three decades. However, there remain points of genuine contention, with the demarcation of the border being the most salient. Although the Joint Working Group-(JWG) has met thirteen times, it has failed to bring about any formal alteration to the border (*Tucker, Mona Lisa D.2003*).

Globalization: India and China

India, on gaining independence, chose a path of import substitution ("self-sufficiency"), moderately-centralized state direction ("planning"), and a mix of private and public enterprise, with the latter having a monopoly over "the commanding heights of the economy." An inward-looking economic orientation allowed Indian policy makers to shape external economic links in ways complementary to India's perceived international political interests. These factors combined with galloping population Growth, the constraints of an active democracy, and an undeveloped post-colonial infrastructure produced a low annual gross domestic product (GDP) growth rate hovering around 3 percent. Domestic economic deregulation began in the mid-1980s (John Echeverri-Gent, 1990). in the early 1990s, the collapse of socialist economies worldwide coupled with a foreign exchange crisis at home allowed the Indian government to push through pioneering reforms. There were five major components to the reforms: export promotion, domestic deregulation (including ending state monopolies in several sectors), privatization of loss-making state enterprises, and permission for foreign capital to enter the economy, and reduction of tariff and non-tariff barriers on imports. Incremental but significant globalization integration with the international economy has gone hand in hand with domestic economic liberalization. Indian policy makers also reoriented foreign economic policy along more commercial lines

(Aseema Sinha, 2006).These reforms facilitated a period of high growth, which shows no signs of slackening. From 2000 to 2006, India's mean growth was nearly 7 percent The highest growth rates in recent years have been in services, such as software, accountancy, financial and legal services, health, tourism, and air transport, which contributed 54 per cent of the GDP in 2003.13 International economic links also have multiplied (James Gordon and Poonam Gupta,2002).

Meanwhile, China was engaged in a similar, though even more far-reaching, transformation of its domestic economic regulatory framework. Most analysts point to the Third Plenum of the CCP (December 1978) as the harbinger of China's economic transformation. Further toward establishing a new economic model for China than any other previous reform. Deng pursued a policy of economic modernization, decentralization, and privatization. Chinese national identity to shrewd fiscal and commercial policy, innovative business practices, and robust market competitiveness. Decentralization was crucial to China's economic overhaul. Decentralization was crucial to China's economic overhaul. The decentralization of state enterprises and SEZs policy attracted more foreign capital; Moreover, the semi-privatized economy was now far too massive and dynamic for the CCP to rein in. It means Socialist china implemented more and more capitalist policy in china. From 1979 to 2003, China's economy grew at an annual rate of 8 to 9 percent. China's foreign trade volume increased twenty-four times in the same period, reaching $1 trillion in 2004 Between1987 and 2000, China's exports grew from $39.44 billion to $249.2 billion.

Economic Interdependence and the Costs of Conflict

A number of questions are implied in the assessment of economic interdependence. Has economic interaction increased to the point that it has become costly for governments to disrupt it? Is the bilateral economic relationship equally vital to both economies, and do we find asymmetric gains? How is this relationship valued in comparison to other economic imperatives? Finally, does increased economic activity impinge on sensitive security-related concerns? Bilateral trade has increased, but is asymmetric: India depends more on China than vice versa. In 2005, India-China trade increased by 37 percent over the previous year, touching the $18-billion mark, although as recently as 2002 it had amounted to a paltry $5 billion. Recently China replaced Japan as India's top trading partner in Asia(Pallavi Aiyar,2006).In 2005, the United States and China were India's top export destinations, receiving 18 and 9 percent of Indian exports, respectively. Moreover, China and the United States are roughly tied as the major sources of India's imports, with China providing 7 and the United States 6 percent. China depends much less on trade with India. Out of a total trade volume of $1.4 trillion in 2005, Chinese trade with the United States amounted to $204.7 billion, and Sino-Japanese trade amounted to $189.4 billion, while trade with India was a mere $18 billion, approximately 1 per cent of China's total trade. India was the sixteenth-largest exporting nation to China in 2005 and the thirteenth-biggest importer of Chinese products. Moreover, the composition of India-China trade arguably is not conducive to value-addition and rapid growth in India. Indian exports are predominantly made up of base metals and low-value commodities, especially iron ore. In 2005 ores, slag, and ash comprised 56 percent of India's exports to China. With primary products exports, many of the benefits of value addition such as increased employment, higher profitability, and technological upgrading are lost. These exports are driven by the Chinese construction boom and the inability of its domestic iron and steel industry to meet demand, and are thus vulnerable to changes in these conditions. It would also be comparatively easy for China to replace India as a supplier since there are many sources for these commodities. Chinese exports to India are slightly higher on the value chain, comprising goods such as electrical machinery and equipment, mechanical appliances, organic chemicals, and iron and steel (http://comtrade.un.org/db/ce/ceSnapshotd.aspx?gt=ss&px=H2&r=156&y=2006&p=699.).How do the benefits from the bilateral relationship stack up against other economic imperatives, such as competition in third countries for markets, investment, and access to natural resources?

India-China competition over markets is a mixed picture. Econometric studies show that while India has Revealed Comparative Advantage (RCA) in metals, China's RCA lies in the manufacturing f instruments, arms, and toys. India, but not China, enjoys RCA in agricultural products. Overall, they compete in only 25 percent of their products exported to world markets. Only in textiles and clothing does both have RCA, but even here India has higher RCA in basic materials while China has RCA in produced articles of clothing. It appears that India and China are not direct competitors in most goods(Valerie Cerra, Sandra A. Rivera, and Sweta Chaman Saxena,2005).Nonetheless, in rapid-growth environments, the future composition of the economy cannot be easily determined, so we cannot rule out competition in the future. India attracts less foreign direct investment (FDI) than China. In 2006 China's total FDI inflows were worth $72 billion, about double those of India's. However, recent work by Greg Xiao estimates that Chinese FDI figures are exaggerated by 26 to 54 percent on account of "round-tripping" (Chinese citizens investing in China, using other jurisdictions to obtain better terms)(World Bank, 2005).We also find that the same sources are not investing in India and in China. From 1991 to 2004, according to Indian government figures, Mauritius was the main source of inward FDI into India, with 34 percent of the total, though both Mauritius and Hong Kong serve as fiscal conduits for third-country foreign investors, making it hard to discern the regional origin of investment into India() (Economic Survey GOI,2003-04).In contrast, as much as two-thirds of China's FDI derives from the Chinese diasporas, though in 2000 Hong Kong was listed as the source of 38 percent of Chinese FDI(Subramanian Swamy.2005).A reasonable estimate is that overseas Chinese provide at least 50 percent of inward Chinese FDI, while Indians abroad contribute less than 10 per cent of India's inward FDI(Tarun Khanna and Yasheng Huang,2003). These figures suggest that the two countries do not directly compete over FDI at present. A final crucial locus of economic competition may be over the essential resource of energy, where we observe both conflict and cooperation. Currently, China has an advantage in the contest for energy. Chinese companies have been willing to pay high prices for third-country energy assets, often besting Indian competitors for the same resources, as in a recent contest over a stake in Angola's state petroleum company. In another instance, the China National Petroleum Company (CNPC) beat out India's Oil and Natural Gas Corporation (ONGC) to buy Petro Kazakhstan and Nations

Energy. China's energy supply network is also much broader than India's, with assets in Latin America, Africa, Central Asia, and Canada.46 More recently, policy makers in both India and China have gradually come to recognize the mutual disadvantages of competition over scarce natural resources. Thus, in August 2005 and January 2006, officials from both countries held talks to fashion bilateral cooperation in the energy sector. As a result, ONGC and CNPC successfully made joint bids for shares in the Great Nile Oil Project in Sudan, the Al Frat oil field in Syria, and most recently for the assets of Omimex of Colombia.(J. Nandakumar,2007) We note further that actions taken to ensure access to energy also may have security implications for both countries, potentially raising tensions. For example, the Chinese Navy will likely seek to increase its presence in the Persian Gulf, the Straits of Hormuz, and the Indian Ocean, alarming military officials and policy makers in New Delhi. A growing number of Indian naval vessels in the Burma Sea, the Straits of Malacca, and off the coast of Vietnam would have a similarly startling effect on Beijing. Finally, the two governments are also wary of the effect of economic activity on sensitive sectors such as telecommunications and transportation. The China-Indian border was for many years sterilized" for reasons of defense, and natural routes of commerce and social interaction among the peoples of the region were disrupted. On the one hand, as tensions have deescalated, governments have recognized the gains to be had from allowing cross-border activity, the Nathan La pass being a prime example. This traditional trade route between India and China, located in the Indian state of Sikkim, was closed to trade after the 1962 war, but was formally opened in 2003, leading some analysts to predict that trade through this route could eventually amount to millions of dollars (*http://news.bbc.co.uk/2/hi/south_asia/5150682.stm.*).The historic Silk Route between India and China will also be opened shortly to link Sikkim and Tibet(*Hindu*, August 14, 2003.).Another plan proposes to establish a "growth quadrangle" including Southwest China, Northeastern India, Northern Myanmar, and Bangladesh(Gulshan Sachdeva,2000).On the other hand, bureaucratic actors still raise security-oriented objections, restricting flows of labor and capital. For example, India's Foreign Exchange Management Act requires the central bank to approve all proposals for establishing an

Indian office from a firm based in Bangladesh, China, Iran, Pakistan, or Sri Lanka(*Business Standard*, August 8, 2006.).Recently, Chinese firms Hutchison Port Holdings and China Harbor Engineering Corporation were denied permission to expand port operations in India, while in the telecom sector Huawei and ZTE Corp were similarly stymied(*Asia Times,*November 8, 2006.). In sum, although the level of trade between India and China is on the rise, it is less vital to the Chinese economy than to the Indian economy. Looking to the future, we identify certain areas where the two countries will be competing in the world market. Finally, we note that Indian decision makers are uncomfortable with the loosening of borders and regulations when it comes to Chinese firms. Therefore, the first hypothesis, which relies on a simple cost-benefit calculus, seems too fragile and fraught with caveats to serve as a structural conduit for enduring China-Indian rapprochement.

Domestic Interests and State Policy

those private economic interests will develop a stake in external commercial relations and lobby their governments for their continuation. Certainly, private economic actors on both sides of the border are increasingly developing stakes in the bilateral relationship. For example, the Indian conglomerate Tata is constructing a port in the Northeastern Indian state of Orissa, adjoining its $3-billion steel plant, specifically in order to improve delivery times for its exports to China and elsewhere in the region(Financial Times, February 24, 2005.). The chairman of another large Indian corporation, Reliance Industries, recently pressed the government to accelerate visa and immigration clearance for nearly 2,000 Chinese technical executives hired for a gas pipeline project. Growing economic engagement with China was also one of the factors behind the Indian government’s decision to construct seven strategic roads in Arunachal Pradesh in areas bordering China, reversing a policy of using inhospitable terrain to deter Chinese invasion*(www.idsa.in/publications/stratcomments/NamrataGoswami130606.htm.)*.At the same time, other private actors in India stand to lose from closer China-Indian trade ties, so the net effect of interest group lobbying is difficult to predict. For example, the deregulation of the early 1990s allowed a large influx of cheap Chinese goods into the

Indian market, prompting manufacturers to put pressure on the commerce ministry to investigate "dumping" by Chinese firms. In 2001, ninety-three cases were filed against Chinese companies(Ministry of Commerce and Industry, GOI, 2005-06).The latest available figures show eighty-eight cases pending in Indian agencies against China. Among all of India's trading partners, China was the foremost target of antidumping investigations (Mark W. Frazier,2004).China proposed a free-trade area (FTA) to India in 2004. But since India's tariffs currently are much higher than China's, an FTA, by bringing down tariff barriers, would increase Chinese exports to India (and Chinese profits), as well as reducing the Indian government's revenues from duties on Chinese products. There would be a net gain for Indian consumers, who could buy lower-priced imports, and India might benefit if the FTA were to open up the Chinese service sector, where India might have a comparative advantage(Arvind Panagariya,2005).Even so, much of Indian industry has opposed the FTA proposal, pointing out that Chinese firms benefit from government subsidies and that China does not deserve "market economy" status (only sixty-six countries accord China this status) (www.zeenews.com/znnew/articles.asp?rep=2&aid=336150&ssid=50& sid=BUS; "66 Countries Recognize China's Market Economy Status," People's Daily Online, at http://english.peopledaily.com.cn/200701/ 15/eng20070115_341233.html.)The prestigious *Times of India* editorialized: An FTA with India would help China consolidate its position as the factory of the world, particularly in textiles and steel, where its output and exports are at least 10 times India's. That would scuttle an ongoing impetus in India in these two sectors, given China's ability to produce 30 percent cheaper, with the help of non-transparent subsidies ("Trading Freedom," *Times of India*, November 8, 2006.)

Thus we see conflicts within the Indian business community over the inherent desirability of enhanced trade with China. These are not the only barriers to our second mechanism, which posits that domestic private actors pressure the government to preserve the bilateral commercial relationship. Within India, policy makers charged with the protection of national security generally are able to overrule both businesspeople and economic ministers. While the ministries of finance and commerce would like restrictions on Chinese companies to be lifted, the ministry of home affairs and the national security advisor support the retention of restrictions.62 One "insider" argues that, currently, the latter are still able to assert ascendancy by citing the existential threat potentially posed by China.63 In sum, although bilateral economic interaction has given rise to certain groups in India that have an interest in a stable commercial relationship with China, these groups do not hold a dominant position that would allow them to exert overwhelming pressure on the Indian government, especially while other business groups and national security elite view China as a significant threat. We suspect that, within China's still authoritarian political system, lobbying by business interests that stand to gain from continued close commercial ties with India will not receive high priority in policy-making circles. We think it unlikely that pressures from domestic business in favor of closer bilateral ties have been a major factor precipitating the current improvements in China-Indian relations.

As above discussion wean say that As long as their relationship remains trade, economic ties, cultural …. that is fine, but as soon as you get some confrontation, on the border, Chinese goods flooding into India, or an incident at sea, or in Tibet or Nepal, then things quickly become much more nationalistic and complicated Whether such a change will occur depends on the geopolitical conditions at the time, and also on whether the process of economic development has changed the internal balance of power within China. In spite of these long-term realist concerns, we believe the rapprochement in Sino-Indian relations is likely to continue. Currently, there are low levels of competition over markets and relatively higher levels of competition over energy resources At the same time, both India and China are making moves to reach out to one another and to put thorny strategic issues aside, in the absence of compelling interests originating in bilateral economic relations.

We conclude that, in the likely event that leaders in both countries continue to focus on economic benefits as a primary goal, stability and peace in the China-Indian relationship will tend to be maintained. It is not so much the quantity and quality of economic intercourse between two that will mitigate their mutual security vulnerabilities, but rather conscious policy choices in each country to avoid military entanglements during this period of domestic economics consolidation.

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