

**PART V**

**INDO-CHINA ECONOMIC  
COOPERATION**



# 12

## Indian Economic Development and India-China Cooperation

NALIN SURIE\*

Relations between India and China have been developing and diversifying in a steady manner over the last five years. During this period there have been a series of high-level visits from both sides that have further helped the process of mutual understanding and laid the foundation for cooperation in a diverse set of sectors. Premier Zhu Rongji visited India in January 2002; Prime Minister Vajpayee visited China in June 2003; and Premier Wen Jiabao was in India in April 2005. Each of these visits has helped improve the quality of the relationship.

As the two most populous developing countries, which are neighbours and ancient civilizations that have had contact to mutual benefit, there is growing realization that our common experiences are very important for furthering the processes of socio-economic development in our respective countries.

The Declaration of June 2003 provides a road map for the development of relations and comprehensive cooperation between India and China. The Joint Declaration of April 2005 demonstrates that bilateral relations have entered a new phase of development. It reflects the consensus that bilateral relations transcend bilateral issues and have acquired a global and strategic perspective.

Both sides have recognized the importance of trade and economic relations for strengthening bilateral relations. Important progress has been

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\*Nalin Surie is India's Ambassador to China.

made in this direction. Bilateral trade has grown at a fast pace, mutual investment is growing as are our links in financial matters, civil aviation, customs cooperation, agriculture, tourism, and so forth. All this while peace and tranquility is maintained in the border areas based on the agreements of 1993, 1996, and 2005.

The leaders of the two countries now meet regularly on the sidelines of regional and multilateral meetings and conferences. Prime Minister Manmohan Singh and President Hu Jintao met on several occasions in 2005.

The Indian model of economic development has become a topic of discussion of late on account of our rather high growth rates particularly in the last two years. Unfortunately, not enough deep analysis has been done in public discourse over why these growth rates have become so high and why they are sustainable. What is perhaps not so well known is that, since 1980–81, India's average real growth rate over the next 20 years was just under 6 percent. This was happening surely but steadily and did not attract attention. Nor did India seek such attention.

The central idea of the Indian model is to unleash the productive capacity and forces of our people, especially their entrepreneurial abilities and ideas. This has been enabled by our democratic political system and market-based economy, that has the benefit of a strong institutional and financial infrastructure, which is rapidly growing and adapting itself to the changing needs of the marketplace and to the requirements of greater accountability and transparency.

The other very important factor is the wave of optimism and confidence in the country's abilities and talents that is gaining strength. That India has been able to compete effectively in the global marketplace not only in knowledge-based industries but also in high tech manufacturing, pharmaceuticals, auto components, and so forth, has added to the feeling of self-belief in the country.

There are several reasons why the economy is doing well. Growth is now well spread across various sectors, and the agricultural sector is picking up. There has been very substantial growth in manufacturing, and, of late, this has begun to lead economic growth. There is improvement in business expectations and confidence, and corporations have accumulated significant internal resources. Investment in the economy now continues to be driven by domestic demand, and global competitiveness is a new factor. The export sector is also beginning to play a more important role.

Rapid growth requires stable financial markets and these have remained generally stable and mature. This has enabled, among other things, efficient allocation of resources.

Over the nine quarters ending in December 2005, the Indian economy grew in real terms at around 8 percent. Our savings rate is around 29 percent, and the investment rate is 31 percent.

Like China, India is a developing country, and there are many factors that inhibit or adversely impact on growth rate. This is true also of developed countries, although factors that inhibit growth in these countries may differ from those in developing countries. The argument over the impact of inefficient government on growth rates is not new, and this is also true of the participation of government in productive activity. The mantra today is that governments should increasingly distance themselves from direct participation in economic activity. In developing countries like ours this argument can now perhaps be made with some justification in many cases because past government participation in economic activity enabled development of the economy, institutions, and the market itself so that the private sector could play a more important and determining role today in economic growth.

There is no doubt that inefficiency, whether in the government or private sectors, will adversely affect growth. We are fully aware of this in India, and efforts are being made to reduce such inefficiency in government. In his recent address to our Parliament on February 16, 2006, the President of India drew attention to several changes that India intends to implement to reduce government inefficiency and improve the quality of governance.

It is true that under-developed infrastructure affects the growth rate of the Indian economy. Yet in spite of this, we have maintained, on a secular basis, high growth rates. We are fully aware of this deficiency, which is now being addressed on a priority basis. Very significant improvements have already taken place in the telecommunications and road sectors and these are being expanded. Indeed, development of these sectors is providing a huge thrust to growth. Simultaneously, inadequacies in power generation, ports, airports, and the railways are being addressed. These issues have also been addressed at some length in the president's parliamentary address (see above). For instance, the government has setup a Special Purpose Vehicle called the India Infrastructure Finance Corporation Limited to provide long-term debt funds to commercially viable projects in the infrastructure sector. The National Highway Development Project envisages a total investment of Rs. 1.75 trillion over the next seven years. The Ministry of Power is facilitating, among other projects, the construction of five major power projects with a capacity of 4,000 megawatts each.

India and China are the two largest developing countries and among the geographically largest countries in the world. They are also the two most populous countries and rapidly growing. Together, we both account

for more than one-third of the world's population. Over the next ten years, if we sustain our current growth rates, we will probably become the two largest markets in the world, and will be two of the largest global producers of a whole series of goods and services. As our cooperation increases, our common developmental efforts will benefit not only our countries but the rest of Asia and the world as a whole. This rapid and sustained development of one-third of human kind will, in my estimation, be hugely beneficial to the whole world and influence the future course of events.

If you look at the socio-economic problems identified by the Chinese leadership that need to be addressed—such as unemployment, rural-urban inequalities, regional imbalances, environmental and water problems, needed improvements in health and education, and the status of women—you will find that India's problems are virtually identical.

Take the rural sector as an example. In the president's address to both houses of parliament in February 2006 to mark the opening of the budget session (which is akin in many respects to China's annual NPC session) drew attention to the ambitious schemes that the government intends to put in place to deal with issues such as rural unemployment, development of rural infrastructure, and improvement of health and educational facilities. The present focus in China on the development of the new socialist countryside is similar.

Which is the best example that our two countries should look towards in resolving the problems each faces? Is there another country that faces these problems in the same magnitude and under similar socio-economic circumstances? It is true that our systems of political governance are radically different from each other. But the more we share our developmental experiences, the more commonalities we find both in terms of problems and solutions to those problems.

It is not only in the rural sector that we need to share our experiences and learn from each other. This applies across the board to environmental issues, availability of clean drinking water, manufacturing, education, health, the institutions of the market economy, banking, financial management, employment generation, urban development, and many others. Obviously solutions implemented by one country cannot be automatically applied to the other without any adjustment. But the process of learning from each other has begun and needs, in my view, to be hastened quite substantially.

Competitors or partners? I think China and India will be both, but the important thing is there is space for both countries in a growing world. Is India-China development cooperation a zero-sum game? Not at all. It has

positive effects not just for India and China, but also for the Asia-Pacific region and the global economy.

The India-China economic and trade relationship is still a work in progress, but it is headed in the right direction. The discussions at the recently concluded Ministerial-level Joint Economic Group in New Delhi on March 16, 2006, reflected a determination to build on the very impressive development of the bilateral trade and economic relationship over the last five years. The opportunities are enormous and manifold.

Business leaders in both countries are presently engaged in identifying opportunities for productive activity and cooperation with each other. A Joint Study Group, set up by heads of both governments, submitted their report to Manmohan Singh and Wen Jiabao in New Delhi in April 2005. The report identifies potential complementarities between India and China in expanded trade and economic cooperation and has recommended a series of measures that would facilitate trade in goods, services, investments, and other areas.

Our governments have also decided to entrust a group of experts to study the feasibility of and benefits from an India-China regional trading arrangement. This group of experts has begun its work.

Finally, it is likely that bilateral trade will reach US\$20 billion (or more) by 2008. India's and China's rediscovery of each other has begun.