India-China economic cooperation and regional cooperation: a Chinese perspective

Yu Yongding
Academician
Chinese Academy of Social Sciences
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China’s paradigm shift and its implication on regional cooperation and integration
The Chinese economy in the world economy (2008 figures)

- **Economic size**
  - US 14 trillion USD (2009)
  - Japan 5 trillion USD (2009)
  - China 4.8 trillion USD (2009)

- **Trade volume**
  - US 3.5 trillion USD
  - Germany 2.7 trillion USD
  - China 2.6 trillion USD

- **Contribution to global growth** (2009F)
  - Global GDP growth -1.4%
  - China’s contribution 0.91%

- **Top three commercial banks in the world**
  - ICBC
  - CBC
  - BoC

- **Steel production**
  - China 50 billion T (37.7% of global total)
  - Japan 11.8 billion T

- **Car production**
  - 120 million Unit

- **Energy consumption**
  - 2 billion T coal equivalent

- **CO2 emission**
  - China 5.9 billion T (2006)

- **Foreign exchange reserves**
  - China 2.3 trillion USD
  - Japan 1 trillion USD (June, 2009)

- **Capitalization of stock exchanges** (HK included)

- **Current account surplus**
  - China 440 trillion USD
  - Germany 235 trillion USD
  - Japan 157 trillion USD
China’s old growth pattern

• Investment-driven
  – The investment rate hovering between 40%-50%

• Export-led
  – Trade/GDP>60%
  – Export/GDP>35%
Why a paradigm shift is needed

- Growth is no longer sustainable, due to the problems caused by the old growth mode
  - High external dependency and imbalances
    - Trade friction and trade wars
    - Vulnerability to external shocks
    - Welfare losses
  - High investment rate
    - Overcapacity
    - Waste
  - Pollution,
  - High carbon economy
    - Energy efficiency
    - High energy intensity
  - Income distribution gap between different social group and between rural and urban areas
  - In sufficiency of provision of social goods (social safety net, medic-care, education, etc.)
Three big external challenges

• Trade war with the US?
  – Trade surplus
  – The renminbi exchange rate
• Commitment to mitigation of CO2 emissions
• Safety of its foreign exchange reserves
Chinese responses to the internal and external challenges

- Stimulating domestic demand
- Lower carbon emission by raising energy efficiency etc.
- Slow appreciation, a neutral export regime
- Diversification of export destinations
- Further liberalization of the import regime
- Further liberalization of capital account
- Encouraging Out-bond FDI
- Increasing foreign aids
- Diversification of foreign assets
- Promoting the reform of the international monetary system, strengthen regional financial cooperation and promote renminbi internationalization

- All the above mentioned responses have direct or indirect impacts on China’s policy on regional cooperation and integration
China’s view on bilateralism, regionalism and multilateralism
Bilateralism, multilateralism and regionalism

• Bilateralism
  – Traditionally a favorable form for China

• Multilateralism
  – More and more acceptable for China
    • China is comfortable with WTO at this moment
    • Compatible with bilateralism FTA ect. and mostly with regionalism
    • Alliance with, veto

• Regionalism
  – China’s enthusiasm peaked at CMI
  – Then, what value does regionalism add to bilateralism and multilateralism?
Politics of regionalism

• The reason for regionalism
  – There must be strong political motivation
    • Grievance vis-à-vis some outsiders
    • Common political determination with members
  – There must be economic Value added to the multi and bilateral

• EU
  – Peace
  – vis-à-vis US Charles De Gaulle

• ASEAN
  – Anti-communism
  – ASEAN 10—fear of China?

• ASEAN+3
  – Positive: Response to US, IMF—more comfortable
  – Negative: Sino-Japan competition
A further expansion of ASEAN+3

• ASEAN+6? What value can this expansion add to ASEAN+3?
  – Economic benefits? not clear
    • ASEAN+3+bilateral FTAs can do all the tricks
  – Political benefits?
    • Dilute the influence of China? It’s fine. but
    • More importantly: how about other south east countries? How about central Asian countries? How about Russia? If you include Australia and New Zealand? How about the US?

• Cooperation is one thing, institutionalized cooperation is another
continued

– Diversified interests
  • India and China share a developing countries more common language than between India and Japan (climate change etc.)
  • How ASEAN+6 can find common position vis-à-vis the US and EU? Or vis-à-vis the WB and IMF?—maybe, on some issues

• Open regionalism?
  – Contradiction in terms
  – EU will not open to any of us
Scope for regional cooperation
economic cooperation at different levels

- Institutionalized cooperation
  - Highest form: Euro Area
  - Loose form: Nafta, ASEAN
  - Loosest form-: ASEAN+3
- Consultation
  - APEC
- Spaghetti bowl of FTAs
- Project based regional cooperation
- Bilateral cooperation in trade and investment
Bilateral trade and investment

- Japanese-Sino trade relationship is healthy and solid
- Indian-Sino trade has expanded rapidly
- That Japan’s investment in India surpassed its investment in China is perfectly understandable. It may continue for a long while, China has no problem with this development whatsoever.
- China’s investment in India could increase rapidly, if India welcomes China’s investment
Exports and imports between Japan and China and between India and China
Unit: billion Dollar
China has become India’s largest trade partner
China’s out bond FDI
unit: 100 million USD

注：1990 至 2001 年中国对外直接投资数据摘自联合国贸发会议世界投资报告，2002 至 2008 年数据来源于中国商务部统计数据。
China’s out-bond FDI geographic distribution 2008

India ranks 22 behind Afghanistan  unit 100 million USD

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Potential for bilateral economic relationship between India and Japan and between India and China

- The two bilateral relationships are of great potential
- Highly complementary
  - India’s service sector
  - China’s manufacturing sector
- What role can the tripartite dialogue play in the two bilateral relationship? Need to be further explored. A tripartite committee?
From Bilateral to regional

• Regional cooperation could be a by-product of development of multi-pair of bilateral economic cooperation—bilateral FTAs could be a channel leading to closer regional cooperation.

• Something may happen across bilateral agreements
Consolidate ASEAN+3

• The nature of ASEAN+3
  – A product in response to the failure of the IMF in tackling with the Asian financial crisis

• Achievement
  – Regional liquidity arrangement (multilaterization of bilateral swap arrangement)
  – Asian bond market

• Further progress
  – Swap agreement delink with imf
  – AMF
  – Exchange rate policy coordination (ACU)

• Expansion of the membership
  – Clearly defined criteria: geographic, economics or whatever
  – Observer status
  – Qualifying examinations for upgrading status
Project-centered cooperation

• Based on bilateral, multilateral and sub-regional cooperation

• Aimed at specific purpose:
  – across border high way, rail way
  – Hydraulic project
  – Waterway
  – Research and training centers

• ADB can play active role with the support of relevant countries
A few remarks

- India’s policy of looking east should be warmly welcome
- Indian-Sino relationship will be further improved
- India’s entering ASEAN+3 cooperation should be welcome
- A well thought-out procedure should be found so that the whole region in East Asia and South East Asia can be benefited