INDIAN COUNCIL OF WORLD AFFAIRS

VIEWPOINT

Chinese Commerce Minister's Visit to India: Context and Outcomes

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The recent visit by Mr. Chen Deming, Chinese Commerce Minister to India on 27-28 August 2012 is a step forward in the economic dialogue between India and China. Mr. Chen and India's Commerce Minister Mr. Anand Sharma held the Ninth round of the India-China Joint Group on Economic Relations, Trade, Science and Technology, that was institutionalized during Prime Minister Rajiv Gandhi's historic visit to China in 1988.

It is important to understand the economic context in which Chinese Commerce Minister has visited India. The latest economic data from China's National Bureau of Statistics shows that China's GDP grew by 7.6 percent in second quarter (April- June) of 2012. It is the lowest rate registered after first quarter of 2009. China's economy grew by 9.2 percent in 2011, which is less than 10.4 percent in 2010. The economic slowdown has potential to threaten the job market and accumulate political pressure at a time when the ruling Communist Party has planned handover of power to younger leaders later this year.

The sustained and continued growth of Chinese economy is a key issue of debate across the world. Some economists have predicted that China's growth could slip below six percent and some others have painted doomsday scenario of 'crash'. Premier Wen Jiabao has been quoted saying that China's economy faces 'huge pressure' and could slow further despite stimulus measures.

Interestingly, some Chinese economists have suggested a comprehensive economic cooperation with India. The two sides have now agreed to work on a five year plan for furthering economic cooperation for which nodal agencies have been identified to develop the plan. However, there is a need to diversify economic relations as well as the 'basket of commodity' of trade between India and China.

The two Ministers announced that they had agreed to increase bilateral trade to US $ 100 billion by 2015. During 2011-12, the bilateral trade between India and China crossed US $ 75 billion. This is certainly a significant accomplishment. However, it is of critical concern that India's trade deficit with China rose to US $ 39.95 billion in year 2011-2012.

India's Trade Deficit with China

Year	2007-08	2008-09	2009-10	2010-11	2011-2012
Trade Deficit (Unit US$ Billion)	16.27	23.14	19.20	23.86	39.65

Source: Ministry of Commerce, GOI

It is evident from the table above that the trade deficit has increased significantly in last five years. The nature of current trade relations is problematic given that India exports mainly raw materials like iron ore, cotton, copper, precious stones and organic chemicals to China, while it imports a huge volume of manufactured goods, value added products, and machinery, affecting India's domestic industry.

China's assurance that the trade deficit between India and China in favour of the latter will be addressed seriously remains unfulfilled. China has promised to import more Indian commodities including IT, pharmaceuticals and agricultural products in order to make the bilateral trade 'more balanced'. This has been a consistent demand by India for the last few years. During President Smt. Pratibha Patil visit to China in May 2010, she had suggested for a greater market access for Indian pharmaceutical and engineering companies. This issue had also been taken up earlier during the visits of the Indian Commerce Minister to China in April 2010.

China has been India's largest trading partner in goods for the last few years, however, investment flows between the two has not kept pace with the trade. Increasing Chinese investments was identified as one good way to address the problem of trade imbalance by the visiting Chinese Commerce Minister. Indian Commerce Minister has invited China to participate in the planned National Investment and Manufacturing Zones which received positive response from China. China will inevitably take into account the huge Indian market for its manufactured goods as well as the large contracts and joint ventures in India's physical infrastructure projects. These can help sustain its economic growth which in turn adds to the domestic legitimacy of the Chinese government. India and China have now decided to set up a Joint Working Group (JWG) to look into trade related issues including investment. The JWG will give its recommendations and assessment in three months.

The possibility of Free Trade Agreement (FTA) at a later stage was also discussed by the two ministers. If India is to consider a FTA with China, the issue of burgeoning trade deficits in bilateral trade, as also the lack of transparency of Chinese State-owned Enterprises, needs to be resolved to India's satisfaction.

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