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India and China

Markets-Competitors-Partners

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India and China: Markets-Competitors- Partners

I. Introduction:

Academics, students, the media and the public have been increasingly drawn to China and India in recent years. Both countries were considered sleeping giants and are now turning into the motors of global economic growth. China and India are both ancient civilizations with a rich history and were among the largest economic powers until European colonization in the 19th century¹. After Indian independence in 1947 and the establishment of the Peoples Republic of China in 1949 both countries shared the view that economic development should be achieved through a self-sustaining economy led and controlled by the government². In the following decades the share of Chinese and Indian global trade decreased significantly. Economic reform in China and India in 1978 and 1991 respectively resulted in an increasing integration into global markets and triggered large economic growth. However China and India differ in many ways. On the one hand China started its reforms 13 years earlier than India.

Due to early establishment of Special Economic Zones (SEZ), strong connections with oversea Chinese in Taiwan and the abundance of cheap labor China was able to position itself as the manufacturing center of the world³. India on the other side still lacks the degree of integration in global markets, and the structure of labor and bankruptcy laws, red-tape and poor infrastructure are just some obstacles for further Indian development⁴.

In addition, India and China are built on different approaches of governance. India is a democracy which makes it more difficult to introduce pragmatic laws, yet easier to absorb exogenous shocks. China on the other side is solely ruled by the Communist Party of China. As a result it is easier to adopt new policies, but on the other side legitimization to govern is limited and connected to economic growth. A closer analysis of China reveals the existence of several influential interest groups and lobbyists which makes governing China a balancing act in

¹ Maddison (2005)

² Holsag (2010, 15)

³ Tsai (2002,75)

⁴ Srinivasan(2004)

itself yet this will not be subject of this study.

China and India both face serious principal-agent problems when it comes to enforcing laws⁵ and due to large heterogeneous populations, governing each country is a complex challenge.

Today, according to GDP in PPP data China and India rank 2nd and 4th respectively globally⁶. Their share is likely to improve and they are expected to become the world's biggest energy importers and CO2 emitters. The rise of the two nations can be interpreted as a shift of power from the Western Hemisphere towards Asia resulting in major challenges for the international community but also in a regional Asian context.

It is very important to note that although China and India are both rising at the same point of time, they are rising in a different pace. China outperforms India in almost every indicator of economic development. It is the key aim of this study to point out this asymmetry between China and India. Another question is, if India is capable of catching up with China in the future and its effects to Sino-Indian relations.

In that context noting the mutual perception of India and China is important. To some extent, China dealt with India only as a regional issue, having delegates of provincial governments meet with Indian federal counterparts⁷. On the other side India and China cooperated in international forums, most recently during the Copenhagen summit in 2009, which is an indicator for equal perception. On the other side signs for future tensions can be derived from military modernization programs and competition over natural resources⁸.

Analyzing the bilateral trade between China and India serves to increase the understanding of the nature of Sino-Indian relations. It is important to note that the economic structure of India and China differs significantly. Economic aspects are also just one facet of Sino-Indian relations. However heterogeneity is always a common element in every study and although abstraction leads to a loss of information it is a necessary tool to understand Sino-Indian relations.

Analyzing bilateral commodity trade provides insight in the intensity of bilateral trade, and intra-industry indices and relative comparative advantage indices

⁵ Tsai (2002, 137)

⁶ <https://www.cia.gov/library/publications/the-world-factbook/index.html>

⁷ Uberoi (2008)

⁸ Kaplan (2009)

provide insight in the complementary and competitive element of bilateral trade relations. Another important aspect is the role of China and India in third markets. India and China are major trade nations, yet the latter outperforms the former significantly⁹. Nevertheless third-market trade reveals possible areas of competition and cooperation. Matching trade baskets are indicators for competitive third-market trade¹⁰. A dynamic analysis provides insight if the possibility of competition in third markets is increasing and predictions can be derived from it. However it is important to note that commodity trade data are imperfect and the presented results must be regarded critically since they are only an approximation of real international trade. The share of informal economic activities is very high, and differences between international databases are also remarkable. It is important to note that databases receive their information from the very country¹¹, and regarding India and China it is particularly in question if they are able or willing to generate and provide accurate data.

In addition remittances and triangular trade is not captured by commodity trade databases which are particularly high in the case of India. Hongkong also appears as a separate unit in the trade data. Although it is legally part of China and serves as a major trade hub it will not be recognized in this study. Although China regards Taiwan as a Chinese province it will be analyzed as an independent country.

Due to poor availability of bilateral service data, it will not be recognized to the extent as desired.

The hypothesis of this study is that there exists a substantial asymmetric component in Sino-Indian relations favoring China.

In the long run more symmetric relations are possible to emerge, and India is already catching up yet policy changes could increase this process significantly. Defining India and China as competitors or partners presupposes equality to a certain extend. The last section of this study discusses this question and provides a brief outlook of possible areas of competition and partnership.

However it has to be kept in mind that Indian-Chinese relations are a complex

⁹ Bhat (2008, 152)

¹⁰ Batra (2005)

¹¹ <http://comtrade.un.org/>

matter and providing a simple yes or no answer is not aim of this study.

II. Historical Overview

Although India is separated by China through the Himalayan and Karakoram mountain range in the north and northwest and tropical rain forests in the northeast, Sino-Indian interactions date back more than 2000 years¹². Early interactions were mostly relying on cultural exchanges¹³. On the Sutra Route which connected the two regions through Central Asia, Buddhism was introduced to China from India. Until the Tang dynasty (618-907AC), Indian scholars translated Sanskrit texts into Chinese in places like the White Horse Monastery near Luoyang, Dunhuang, Kabul, Khotan and Tukhara¹⁴. At that time Indian knowledge was considered superior and opened up the sinocentric view to broader horizons¹⁵. The dominance of the Buddhist element in Sino-Indian relations ended during the Song dynasty (960-1279) when its clergy called for a more “Chinese” Buddhism and criticized Indian culture as unsophisticated and unable to observe and record events in detail¹⁶. Until today the metaphysical element in Indian philosophy stands against the priority of creating a stable harmonious society in Chinese philosophy¹⁷. As the cultural exchange declined, commercial trade increased. Because of warfare in the Taklamakan desert region and in Burma-Yunnan, sea routes became the major route for bilateral trade¹⁸. From the 10th century on mostly Tamil and Muslim traders connected the coastal areas of China and India, carrying non-religious luxuries and bulk commodities¹⁹.

Following the expeditions of the Chinese navigator Zhang He between 1405 and 1433 Chinese-Indian trade increased significantly²⁰. Tribunal trade with the Chinese fleet can be described as trading, silk, perfumes, spices, jewels, rare birds and animals on most favorable terms for China²¹. Apart from the trade of goods, or the introduction of Chinese fishing techniques to Southern India and the

¹² Chandra (2005, 5)

¹³ Chandra (2005,6)

¹⁴ Chandra (2005, 6-10)

¹⁵ Chandra (2005,6)

¹⁶ Sen (2005, 39)

¹⁷ Sen (2005,40)

¹⁸ Sen (2005, 42)

¹⁹ Sen (2005,41)

²⁰ Yinzen (2005,25)

²¹ Yinzen (2005,26)