China and India are being widely recognized as rising powers in the 21st century. With its track record of fast economic growth in the last two decades, China is already a global economic power. Based on India’s more recent growth performance, India is steadily catching up with China as an economic power.

Despite fundamental differences in their political systems, both countries have acquired rising economic power due to open market economy-oriented reforms. China has the advantage of an earlier start than India in this respect. China started its economic reforms in 1978 and India in 1991. These economic reforms have miraculously transformed China into a global economic power. Although politically constrained, economic reforms have helped India to improve its growth trajectory and to further integrate with the global economy.

China and India have been following different paths for managing their rising power:

- China has been credited with carefully evolving a grand vision and a grand strategy for transforming it into a ‘global power’ by the year 2020 (or so). Pragmatism and effective political will have been the hallmarks of the ‘calculated strategy’ adopted by China to achieve this objective.
- India’s economic power has been rising more due to the impulses generated by its entrepreneurs especially in the knowledge-intensive services and industries than due to its government’s pursuit of a well-thoughtout grand vision and grand strategy for becoming a global power. Currently, China is nearly two decades ahead of India in moving towards acquiring significant global power.

The author’s analysis of the existing and projected strengths and weaknesses of both countries in this paper leads him to the conclusion that both the countries have the potential to become global powers — China most probably by the year 2020 and India by the year 2050.

Further analysis of the existing and potential complementarities and competition in the economies of China and India indicates that there is a tremendous scope for forging mutually beneficial strategic partnership between them. A very useful beginning can be made in this direction by establishing mutually rewarding strategic alliances in these two countries at the business-to-business level. Progress in this direction can be expedited by supportive government policies and procedures.

Despite the existing deficit of political trust between India and China, the two countries have recently agreed to become strategic partners. Concrete moves towards operationalizing this strategic partnership can be initiated in two areas identified in this paper. These are:

- strengthening cooperation at the international level for enhancing national energy security
- further cooperation in negotiations at the World Trade Organization and other multilateral forums for collectively promoting the interests of all developing countries in the emerging new international trade and investment order.

This paper is based on the keynote address delivered by the author on July 3, 2006 at the inaugural function for the MBA students of the Faculty of Management Studies of the University of Delhi. An earlier version of this paper was presented by the author on March 23, 2005 at London at a discussion meeting organized by the Foreign Policy Centre, London.
China and India are the two most populous developing countries with nearly 40 per cent of the world’s population living here. They represent two of the most ancient civilizations—China as the ‘Middle Kingdom’ and India as the ‘Golden Sparrow’ had historically attracted the attention of the traders both in the East and the West. The ‘Silk Trade Route’ connecting China to Europe via India is legendary. In the middle ages, both China and India had accounted for significant shares in the world trade (around 34% and 24% respectively, circa 1400 AD). The spread of Buddhism from India to China and to the other countries of Southeast Asia had added a cultural dimension to their historic interaction. Unfortunately, in the contemporary world history, both these countries were classified among the low income (poorer) developing countries based on the per capita income criterion in 1950 (World Bank data).

China and India took different political paths to their planned economic development. China planned its socialist economy and India its ‘socialist pattern of society.’ In practice, in India, this involved a ‘mixed’ economy working through private sector with the socialist element typically represented by establishing public enterprises fully owned by the government in selected ‘core’ industrial and infrastructural activities. Both countries initially relied on the Russian style import substitution as the key strategy for their planned economic development. These economic systems resulted in a relative stagnation in economic growth and widespread poverty especially in the rural and backward areas of both countries.

CHINA: AN OVERVIEW

Economic Reforms and The Grand Strategy

China launched its evolutionary (which eventually proved to be revolutionary) economic reforms in 1978 under the leadership of Deng Xiaoping. These reforms in the ‘socialist market economy’ of China were based on the opening up of the economy initially in the coastal areas through Special Economic Zones (SEZs) in the Southern and Southeast China. These were followed by further moves at integration of the Chinese economy with the global economy. This change in strategy proved successful by attracting continuously increasing inflows of export-oriented foreign direct investment (FDI) in all priority industries. The ethnic Chinese based in Hong Kong and the neighbouring countries and territories played a significant role in increasing the inflow of FDI into mainland China.

China started its economic reforms in the agricultural sector (including the establishment of town and village enterprises) partially financed by FDI. This was followed by the pragmatic pursuit of economic reforms for raising its economic power in the global economy. China achieved ‘economic miracle’ through a near double-digit annual growth rate in the last 20 years emerging as the topmost destination of FDI among developing countries. It has managed its rising economic power and leveraged it to acquire increasing political power in the neighbouring Asian countries and in the rest of the world. Already an ‘Asian power,’ China is moving forward with a vision to eventually surpass the current superpower, the US, to become the number one global power and make its presence felt in the international relations arena. Global power is measured in a holistic way through an amalgamation of economic, technological, military, and political power supported by deft diplomacy.

In fact, the Chinese policymakers have been credited by researchers like Swaine and Tellis (2000) for having evolved a well-thoughtout vision and a grand strategy for transforming the country into a ‘global power’ by 2020. Pragmatism and effective political will to implement this grand strategy tempered by necessary changes to respond to the changing global environment are the hallmarks of shrewd and ‘calculated strategy’ adopted by China.

The tight one-party rule through the highly organized and military backed Communist Party gives China the requisite political power to crush any dissent and to fully implement officially formulated policies so as to effectively deliver the expected results.

The present Chinese grand strategy for managing its rising power has initially targeted the Asia-Pacific region (including Australasia) for achieving dominance. This strategy is based on the primacy of augmenting capabilities simultaneously through sustained high economic growth and visible pace of military modernization. The Chinese government fully knows that it needs time for reaching its grand strategic vision. In the medium-term perspective, therefore, it would not like to get involved in war with any country. Its ‘calculative strategy’ is premised on the ‘peaceful rise of China.’ Consequently, it is continuously reiterating its commit-
ment to cooperation with all countries, including the US and European Union, and promote peace and prosperity throughout the world, especially in the presently focused sphere of Asia-Pacific region.

According to Swaine and Tellis (2000), China’s ‘calculative strategy’ as reinterpreted by Balakrishnan (2003) is characterized by the following four basic elements:

- Emphasis on the primacy of internal economic growth and stability.
- Nurturing of amicable international relations with pragmatic give-and-take approach without sacrificing the core national interests.
- Relative restraint in the use of force with efforts to create a modern military.
- A constant search for asymmetric gains internationally through more active participation in regional and global politics and various multilateral fora.

It should be noted that the above-stated four-part Chinese strategy also explicitly addresses the grand strategic goal of stability, a core Confucian value. After the collapse of the Confucius order whose hierarchical social structures historically maintained stability in the Chinese society, China has adopted the neo-Confucius hierarchical structures to suit the modern conditions for attaining and maintaining high levels of economic growth. The high rates of economic growth legitimize China’s present authoritarian political regime and help the government to achieve social stability and geopolitical dominance.

The above strategy (with further economic reforms over time) has yielded rich dividends in catapulting China as a rising economic power in the Asian and the global arena. Its status as a veto holding permanent member of the United Nations Security Council and simultaneously as the only recognized Asian nuclear power among the so-called P-5 countries comprising of USA, France, UK, Russia, and China has further added to its status as a global power of consequence.

**The Economic Miracle**

China has an enviable growth record ever since it dramatically opened its economy in 1978 through trade attracting large inflows of FDI. It has reported an annual inward FDI of $40 billion in recent years ($53 billion in 2005). Zhang Gulhong (2005), a Chinese scholar, has aptly summed up China’s post-1978 economic miracle as follows:

China’s annual economic growth rate in the first twenty-five years (since 1978) was 9.4 per cent, gross domestic product (GDP) increased from $147.3 billion in 1978 to $1.4 trillion in 2003 and foreign trade volume and foreign exchange reserves expanded from $20.6 billion and $167 million in 1978 to $851.2 billion and $403.3 billion in 2003 respectively. At present, China’s economy is ranked sixth and its foreign trade is ranked fourth in the world. High economic growth has also helped China to significantly reduce poverty especially rural poverty.

**The Rise as an Asian Economic Power**

China is surging ahead of India (but India is slowly catching up). China has already surpassed Japan in some respects in exerting its influence as an Asian economic power of consequence. The following illustrative economic indicators support this assertion.¹

China’s GDP measured in purchasing power parity (PPP) in 2003 at $6,446 billion exceeded that of Japan (at $3,568 billion). India was the third largest in Asia in this respect with its comparable GDP in PPP at $3,078 billion. China’s foreign exchange reserves at around $800 billion at the end of 2005 exceeded that of Japan. However, given the 1.3 billion population of China, it would take a very long time for China to catch up with the present per capita consumption standard and quality of life of Japan (captured through the United Nations Human Development Index or HDI). China (and India with even lower rank than China) does not figure in the latest ranking of top 60 countries in the HDI.

**The Emerging Global Economic Power**

China was the sixth largest global trader of merchandise in 2003 with 6.09 per cent of the world’s exports of merchandise just a notch below Japan (with a comparable share of 6.24%). The corresponding share of India was 0.78 per cent. The latest Report on Global Competitiveness produced by the World Economic Forum presented at its Davos (Switzerland) meeting ranked China at No.29 in descending order of overall composite index of global competitiveness; at No. 20 for the role of the government in contributing to global competitiveness; and at No.37 for the business environment (with India ranked at No.43 in this respect).

¹The comparative statistics provided in this and the sub-section on ‘Emerging Global Economic Power’ are reproduced from The Economist (London), Pocket World in Figures, 2006 edition.
Scenario by 2020

According to the Report of the National Intelligence Council (2004) of the US:

Most forecasts indicate that by 2020, China’s GDP will exceed that of the individual Western economic powers except for the US. By 2020, although China’s military spending will triple or quadruple (surpassing Japan), it would still remain behind the US military spending level.

INDIA: AN OVERVIEW

Economic Reforms

India had followed a socialistic pattern of society and an import substitution model of planned economic development from 1951 until 1990 with a resultant sustained low rate of growth. Within the constraints of its democratic political regime, it had launched its relatively more open market-oriented economic reforms in 1991. Viewed in the context of these and other constraints, India has also achieved several positive results by pursuing its incremental and relatively slow pace of economic reforms. India has hit a higher trajectory of trend growth rate of its economy at around 7 per cent per annum for the post-1991 economic reforms period. The latest annual growth rate at 8.5 per cent during 2003-04 and the latest (fourth) quarterly growth rate of 9.3 per cent per annum in 2005-06 provide more faith in its potential to continue to achieve a growth rate in excess of 8 per cent per annum for the next 15 to 20 years. India is certainly catching up with China in raising its economic power measured through several indicators. The foreign exchange reserves which had hit a low in balance of payments crisis period at $2.6 billion in 1991-92 rose to $160 billion by the end of the year 2005-06. India’s self-confidence has been rising through incremental but durable pace of its market-oriented reforms. It has already negotiated and is still continuing to negotiate the Free Trade Agreements not only with its neighbouring South and Southeast Asian countries but also with China and even with the US. India currently has a demographic advantage over China with a younger population and a declining growth rate of its population. It has also succeeded in attracting $4.5 billion annual foreign investment by latest count through FDI and foreign institutional investment ($7 billion) during 2005-06.

Rising as an Economic Power by 2020

Based on the projections made by the World Bank, India would emerge as the fourth largest economy in the world by 2020 measured by GDP in PPP terms (from its present comparable position in the world). According to the Report of the Indian Planning Commission (2002), by 2020, only 13.0 per cent of the Indian population will live below poverty line (compared to 26.0% in 2000). By 2020, India would be an acknowledged leader in the knowledge-based activities and frontier technology (such as information technology, pharmaceuticals, and biotechnology).

India’s modern navy gives it a special position of eminence in ensuring maritime security in the Indian Ocean. India is also seeking a permanent seat in the United Nations Security Council. The India-US deal for nuclear cooperation in civil nuclear energy, as and when cleared by the US Congress and Senate, will give it a special status within the non-nuclear nations and will enable it to import dual use technologies in the nuclear power sector.

India’s economic power has increased more due to the impulses generated by its entrepreneurs in knowledge-intensive services and manufacturing activities in the private sector than due to the government’s pursuit of a grand vision and accompanying comprehensive grand strategy to realize the vision of becoming a global power by 2020 (or beyond). While India has ambitions to become a regional (Asian) and global power, strategic thinkers worldwide agree that, as of now, it lacks a well-thoughtout and well-implemented ‘calculative strategy’ backed by smart diplomacy and sufficient financial resources (compared to China).

Catching up with China

That China is currently way ahead of India as an Asian economic power and is moving towards becoming a global power can be substantiated with the help of the latest available statistics provided in Exhibit 1.

Before we highlight the comparative performance of China and India under very different political systems, it would be worth making three simple points. The

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2 Most of the statistics cited in the context of India’s rising economic power are based on official statistics provided in various issues of Annual Economic Survey (Government of India).

3 Based on the data provided by the World Bank in its World Development Indicators, 2004.
first relates to the base year of comparisons for per capita GDP for both countries. In 1950, India’s per capita GDP (in current US dollars) was reported to be higher than that of China. And, as late as 1978 when China began its market-oriented economic reforms, the per capita GDP of China and India was roughly similar. In that year, per capita GDP in India was $1,255 and for China it was $1,071. But, thereafter, the growth rate of GDP per capita of China was almost double that of India. Consequently, in 2003, India’s GDP per capita was only $2,732 compared to China’s $4,726.4

The second part relates to the sharp differences in the growth of agricultural productivity (total factor productivity) in agriculture between China and India in their respective post-reform years. While the higher growth of productivity and output in the manufacturing sector of China (compared to India) is well known, it is necessary to highlight the much higher growth of productivity and output in the agricultural sector of China (than India). The latter factor helped China to record faster pace of reduction (than India) in the incidence of rural poverty from 33 per cent in 1978 to around 11 per cent in 2001 based on a poverty line of less than a dollar a day. China, in fact, started its post-1978 economic reforms with reforms in agriculture providing substantial incentives to the rural population for increasing agricultural output through household responsibility system. An even more striking feature of China’s agricultural reforms was the creation of town and village enterprises (TVEs) for promoting rural industrialization thrown open to financing by FDI in export-oriented industries. India is way behind China in unleashing the full potential of agricultural reforms.

The third point relates to the strict non-comparability of the FDI inflows into China and India in their respective post-reforms period (Exhibit 1). This is due to definitional differences and the economic phenomenon of ‘round tripping’ of FDI in China. While the Indian definition of FDI inflows includes inflows in the form of capital (fixed assets), the Chinese definition of FDI includes both fixed and working capital. The phenomenon of round tripping refers to the outward Chinese investment in Hong Kong coming back to the mainland China as FDI to take advantage of the various incentives provided by China for attracting FDI. However, even if both these differences in the measurement of ‘genuine’ FDI inflows into China and India were to be resolved statistically, there is no doubt that China has attracted FDI in 2005 alone which is several times larger than that of India for the entire post-1991 economic reforms period.

It needs to be appreciated that over 70 per cent of the FDI inflows to China come from overseas Chinese diaspora, especially from the diaspora located in Taiwan, Hong Kong (prior to its return to the Peoples Republic of China in 1997), Singapore, and other neighbouring East Asian and Southeast Asian nations. The link of China to its overseas diaspora especially its diaspora located in the neighbouring Asian countries through cultural ‘regionalization’ has played a leading role in the process of China’s integration into the Asian and the global economy. This type of ‘regionalization’ experience is known as informal regionalism or ‘bamboo regionalism’ (compared to formal institutionalized regional trading arrangements) (Katzenstein, 1996; Kao 1993; Breslin, 2004). The virtual control of marketing distribution channels by the ethnic Chinese in most Southeast Asian nations (belonging to the Association of Southeast Asian Nations or ASEAN) has provided further impetus to the informal regionalization of China’s external trade and outward FDI. Together, the interaction of these cultural and economic factors through informal regionalization provides China with a receptive political ‘space’ to counter the fear of its military expansion and to increase its political influence worldwide, especially among the Southeast Asian nations.

A survey of the comparative data presented earlier (and data not reported here) leads to the inescapable conclusion that, by current reckoning, India is around 20 years behind China in its quest for global economic power. India has a lot of catching up to do to reach the current status of China especially in terms of the state of its infrastructure; raising its domestic savings rate and investment rate to GDP; attracting FDI; achieving export-orientation; and outward FDI for the presence of each country’s business corporations in the niche markets of developed OECD member countries and in the developing countries for niche products and services.

THE SIMULTANEOUS RISE OF CHINA AND INDIA

It is relevant here to recall the remarks of Deng Xiaoping, the architect of Chinese economic reforms. He had told...

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4The supporting data for GDP per capita comparisons and the comparisons of agricultural productivity and output growth have been taken from Joachim, Gulati and Shenggen (2004-05).
the then visiting Indian Prime Minister, Rajiv Gandhi, in 1988 that “unless both China and India rise up, there would be no Asian century.” Now the time has come for both countries to plan together to shape the 21st century as the Asian century. Undoubtedly, both China and India are among the foremost rising economic powers (with spillover to political power) at the beginning of the 21st century. A recent report prepared by the National Intelligence Council of USA (2004) has also identified China and India among the new major global players. To quote:

The likely emergence of China and India.....will transform the geopolitical landscape....the 21st century may be seen as the time when Asia, led by China and India, comes into its own.

The world is now talking about both China and India (not China alone and not China or India) as the rising global powers by 2020 for China and by 2050 for India. That will enable both countries to raise their leverage in decision-making for economic, political, and security-related issues for reshaping the regional and international relations.

In this context, it would be appropriate to also list the other claimants for rising economic and global power. By current reckoning, in addition to China and India, these include Brazil, South Africa, and Russia.5

While India has developed a vision for 2020, it still lacks the articulation of a grand strategy a la China to achieve the status of a global power of significance by 2020 (and beyond). It must pay urgent attention to evolve an appropriate comprehensive calculative grand strategy to achieve its vision of attaining the status of a global power by 2050.

COMPARATIVE POTENTIAL AND PROSPECTS OF CHINA AND INDIA

China and India will be potential competitors and will also display complementarities through common strategic interests in their ongoing quest to become global powers of consequence by the year 2020 (and beyond). Both have their relative strengths and weaknesses. Despite the highly authoritarian political system of China and the soft system of democratic governance in India, both countries have the requisite potential to emerge as global powers. Much will depend on the suitable policy choices each country makes for managing its global role in the ever-changing complex set of international relations to reach that goal in the 21st century.

China’s Main Strengths

• Clear vision and pragmatic approach to policy-making and effective implementation of its policies for delivering results
• Commitment to sustain high growth
• Providing large markets for imports and propelling growth of countries in Asia and in the rest of the world
• Significant global exporter
• High level of foreign exchange reserves allowing leverage for economically and politically befriending developing countries in Asia, Africa, and Latin America
• Well-developed world-class infrastructure
• Business-friendly policies and procedures for encouraging FDI
• Productive and disciplined workforce.

China’s Main Weaknesses

• Lack of synchronization between economic liberalization and political liberalization/democratization (unwillingness to give up highly centralized political regime backed by huge armed forces to crush domestic dissent)
• Poor human rights record (illustrated by the Tianamen Square event of 1989; restrained civil liberties, execution for dissenters/corrupt officials)
• Very large disparities in the levels of economic development (least developed provinces, e.g., Xinjiang)
• Growing unemployment and restrictions on movement of labour (causing resentment especially among rural landless labourers)
• Large number of loss-making state-owned enterprises (SOEs)
• Sizeable non-performing loans in the banking sector
• Unsatisfactory legal protection system (for property and intellectual property rights).

China’s Main Risk Factors

• Fragility of the financial system and SOEs (employing 60% of industrial workforce)
• Widespread corruption (including alleged corrup-

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5Together, the four countries are popularly known as ‘BRICS’ (Brazil, Russia, India, China, and South Africa) — a term popularized by a report recently prepared by Goldman and Sachs (2004).
• Growing shortage of water resources
• Growing pollution
• Unemployment, poverty, and rural and industrial social unrest
• Energy deficit
• Taiwan, Tibet, South-China sea, and other potential conflicts.

The Verdict on China

There are different views from different experts on the future of China for its sustained rise as a global power. The extreme pessimistic view is that China will not be able to sustain its present pace of rise as a global economic power. The incongruence between political and economic liberalization will some day turn explosive for China’s internal stability. However, there is a general consensus among most experts that on net balance, there are higher risks for sustained growth of China than for India. In our view, China has the requisite capacity and far-sighted and pragmatic leaders to skilfully meet all the challenges on its way to becoming a global power by 2020 (if not earlier).

India’s Main Strengths

• Higher arable area per sq. km. of national territory than China (54% arable land compared to 15% of China’s mainland), abundant natural resources, and all season agricultural activities (but higher agricultural productivity in China than in India)
• Skilled manpower (scientific, technical, managerial, and professional)
• Demographic dividend (rising population in working age group up to the year 2020)
• Growing affluent middle class
• English language proficiency
• Prosperous non-resident Indian diaspora (Chinese overseas diaspora are more committed to invest in longer-term infrastructure projects of China than Indian diaspora for investing in India)
• Vibrant democracy
• More dynamic private entrepreneurs
• Rising confidence for India’s participation in regional/bilateral FTAs
• Well-functioning financial markets
• Political stability.

India’s Main Weaknesses

• Lower ranking in the latest available Human Development Index (HDI) in the United Nations Report (2005) (China’s 76th rank vs. India’s 130th rank)
• Large absolute number of poor and illiterates
• Infrastructural bottlenecks (much less developed infrastructure than China)
• Implementation problems due to political and administrative hassles (delays and corruption at all levels of government—especially at the grassroots level)
• Regional disparities in levels of economic development of the states
• Internal conflicts especially in Jammu and Kashmir and the Northeastern states (which are exploited by unfriendly neighbours of India)
• South Asian politics: India-Pakistan relations restraining faster progress towards South Asian economic integration.

India’s Main Risk Factors

India’s risk factors are lower than that of China. These mainly include:

• Slow speed of decision-making under its democratic polity
• Delays in administrative implementation of policies leading to corruption
• Rising unemployment leading to growth of terrorist activities.

The Verdict on India

Considering all factors taken together, the above analysis of the strengths and weaknesses of India and China leads us to the conclusion that India also has the potential to become a global power of consequence though at a later time (say by 2050) than China (say 2020).

SCOPE FOR STRATEGIC PARTNERSHIP

In the context of continuously rising global economic status of both China and India and the existing and potential complementarities (as well as competition) in the Asian and the global markets, it would be ideal for India and China to forge mutually beneficial and mutually rewarding strategic partnership at business-to-business level in both countries. As a first step, learning Mandarin by the Indian business people would facilitate...
a purposeful dialogue between the two parties for exploring the possibilities of establishing strategic business partnership. This needs to be supplemented by strategic partnership at the inter-governmental level by both countries. The Indian government as of now is less keen on moving faster in this direction at the official level. Several factors explain this reluctance. India has not yet forgotten its defeat in the military conflict of 1962 with China occupying vast areas that China regarded as belonging to itself under unsettled borders with India. Despite eight rounds of talks completed so far on the border dispute, the dispute remains unresolved. India is almost the only neighbouring country of China where land borders with China have not been resolved between both countries. Meanwhile in the Jammu and Kashmir (J&K) territory disputed between India and Pakistan, the latter has ceded some territory to China to build road connecting the Pakistan occupied territory of J&K to China. China’s support to Pakistan for becoming a nuclear power and military-to-military cooperation between China and Pakistan is not seen as a friendly act by India. China’s increasing aid diplomacy in neighbouring Myanmar, Bangladesh, and Pakistan, particularly for developing ports for naval activities, is seen by India as an unfriendly act. India views this and other actions affecting the Indian security as a deliberate policy of China for encirclement of India aimed at restricting India’s dominant role in South Asia in particular and Asia in general. Although China and India have taken up several measures to facilitate bilateral economic engagement, India is still suspicious of the motives behind China’s increasing influence in South Asia and Myanmar and its effects on the insurgency of India’s North-eastern States. The state of Arunachal Pradesh in India has been claimed by China as its own territory. This political environment would limit the scope for faster progress on business-to-business level strategic partnership between China and India.

The guiding principle governing strategic partnerships between China and India is to maximize the areas of their respective strengths and minimize the areas of their respective conflicts. Even in areas involving direct competition in global markets, there would be scope for forming strategic alliances at a business-to-business level to achieve the commonly agreed objectives. The formation of such strategic alliances will bring significant benefits to both countries. There is an urgent need to launch market research studies for fuller identification of the complementarities and competition between both countries. Such studies will help the process of formulating mutually beneficial strategic partnerships and strategic alliances. The scope for such managerial action has been brightened by the rising complementarities in the bilateral economic relations between China and India.

Trade Complementarities

The rising trend in the complementarities in the production and consumption structures of China and India is evident from the fast rising growth in bilateral trade in the last seven years. As late as 1997-98, this bilateral trade was still below the $1 billion mark. It had hit $18.7 billion level by the end of 2005-06. If this trend continues in the next three years, China will become India’s number one trading partner replacing the US in that position. There are serious question marks on the desirability and sustainability of the current composition of India’s exports to China. In 2005-06, low value-added iron ore and plastics required by China for its booming construction activities had constituted nearly 70 per cent of India’s total exports to China. The composition of Indian exports certainly needs to be changed towards higher value added exports.

Indian entrepreneurs were generally apprehensive of the ill-effects of the invasion of cheap imports from China. Barring a few exceptions, they seem to have gotten over these fears after their experience in trading with China in globally competitive markets in the WTO regime. Both countries have set up a joint working group to explore the possibilities of establishing a comprehensive economic cooperation agreement which may ultimately lead to the establishment of a bilateral free trade area.

There appears to be a huge scope for further expanding the two-way bilateral trade between India and China. The scope for expanding India’s exports to China includes, among others, the following products and services:

**Products**

- Textiles and garments (after the phasing out of the Multi-Fibre Agreement)
- Leather goods
- Auto components
- Pharmaceuticals (especially by formulating new drugs combining indigenous systems of Chinese and Indian medicine and co-branding and co-
marketing them globally)
• Biotechnology products.

Services
• Information technology (combining Chinese hardware and Indian software, embedded IT, and programming in the Chinese language)
• Information technology (IT)-enabled services
• Joint R&D centres for science and technology
• Higher education
• Tourism.

Impressed by the success story of Indian software exports in the global markets, the Chinese firms are currently intensely wooing the Indian software companies and the Indian software training institutions to set up shop in China. It stands to reason that given the success of China as a manufacturing hub of the world, Indian companies should now woo Chinese companies to set up large scale-low cost manufacturing companies in India for tapping both the growing Indian market and the global markets. It makes economic sense to relocate Chinese units in selected manufactures in India. As China moves up the technological ladder and as labour costs rise in the face of shortages of specific skills, the Indian small and medium enterprises should take up the space vacated by the Chinese firms for becoming a manufacturing hub for the exports of low-cost, labour-intensive, and high quality manufactured consumer goods. At the same time, India must further improve its position as an exporter of higher value added knowledge-intensive services and products.

India can learn a lot from China’s success story. So also can China learn from India’s development experiences. The Indian firms can also source their requirements of inputs for export-oriented products and services from China. This can include locating Indian units in China. To quote Vijay Govindarajan of Dartmouth’s Tuck School of Business on this subject: “The best way India can emerge as an economic superpower is to learn to match the Chinese prices and quality by locating India’s manufacturing base in attractive countries outside India” (Gupta, 2006)” (including China). Some Indian companies have already started moving in this direction and are outsourcing products from China.

S Raghunath of the Indian Institute of Management, Bangalore, has also expounded on the need for Indian business firms — both large and small—for locating their production operations in China or outsourcing some or most of their production to China to meet the threat of price competition from China. According to him, “coordinating production and sourcing from China will become critical to profitability of the Indian companies” (Raghunath, 2006).

To sum up, mutually beneficial strategic partnership between Indian and Chinese business firms in trade generating ventures will be mutually beneficial for expanding bilateral trade and global trade. In the current context of revealed comparative advantage, this will mean carefully combining niche services of India with the niche manufactured products of China. Both countries can also mutually benefit by negotiating and sealing business deals involving the transfer of internationally competitive technology. Considering the importance attached by both countries to incrementally move towards knowledge-intensive economic activities, strategic alliances must be formed at business-to-business levels in both countries to meet the challenges of knowledge society in the world of the 21st century.

Investment Cooperation

The two-way flow of FDI between China and India is still very small. It is not commensurate with the economic and technical expertise possessed by both countries. Most leading Indian IT companies — Sundaram Group in the auto-components business and Ranbaxy as the leader in the pharmaceutical industry — provide examples of successfully operating Indian business ventures in China. However, the total contracted investment by the Indian companies around 2005 is reported to be only around $235 million. FDI from China to India is currently at a very small level and not commensurate with the market potential for this purpose. Approved FDI from China in India from 1991 to 2005 at $231.7 million (or 0.3% of cumulative approved FDI) is indeed very small. Only a few established Chinese MNCs including Haier and Huawei Telecom India are trying to expand their business operations in India. The scope for promoting mutually rewarding two-way FDI remains largely unexplored especially among the small and medium enterprises in China and India. Systematic research on this subject is required for encouraging strategic allianc-

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6 The data presented in this paragraph is reproduced from the Outlook Business, (2006).
7 The rising global economic power of the Chinese MNCs has been noticed worldwide by the recent (2005) acquisition of IBM’s PC business by China’s Lenovo Corporation.
Cooperation for Energy Security

Both China and India display high deficit in meeting their fast growing energy requirements from their respective domestic energy resources. It makes business sense for both countries not to bid for acquisition of foreign energy resources without coordinating their positions. Joint bidding in such cases where national interests permit coordinated action will benefit both countries. There are several examples of successes and failures of global bidding by China and India in this regard. The case in point is a collaborative joint venture between China and India for this purpose. India’s Oil and Natural Gas Commission (ONGC) and China’s China Natural Petroleum Corporation (CNPC) had set up the first 50:50 equity partnership venture named as Himalaya Energy. This joint venture has successfully acquired Al–Furat of Syria in the face of tough international competition from Petro-Canada. ONGC has also formed partnership with the Chinese CNOPC to jointly operate the Greater Nile oil project in Sudan. On the other hand, India lost to China in direct competition in their recent bids for energy resources in Kazakhstan and also elsewhere. Both China and India can learn from these experiences. Consistent with and in accordance with the priority to their own national interests, both countries can further cooperate in this area wherever feasible. One such feasible area of cooperation in energy imports is negotiating mutually profitable swap deals in oil procured globally to save transport costs.

COOPERATION IN WTO AND OTHER MULTILATERAL ORGANIZATIONS

Both India and China are members of the World Trade Organization (WTO). A new world trade and investment order is evolving through continuous negotiations among the member countries of this organization. China and India share common interests (with several other developing countries) in negotiations for future liberalization of world trade. Tremendous scope exists for coordinating their negotiating positions for wresting concessions from the reluctant countries of the developed world. China and India have already successfully shown the way by forging the coalition of Group of 20+ developing countries. They need to work together to expand this coalition for improving the bargaining position of all developing countries. The common areas of interest to China and India and to other like-minded developing countries for future negotiations at the WTO include the following major areas:

- Agriculture.
- Non-agriculture market access (cutting industrial tariffs by developing countries linked to cutting subsidies by developed countries in agriculture).
- Intellectual property rights.
- Linkage of trade with labour policies.
- Movement of natural persons (mobility of skilled labour across countries).

The scope for mutually beneficial cooperation between India and China can also be extended to negotiations in several other multilateral fora (including future reform of the United Nations). India will need China’s cooperation for seeking permanent seat in the United Nations Security Council.

CONCLUDING REMARKS

To conclude, there is a large scope for forging mutually beneficial strategic alliances at business-to-business level and strategic partnership at national level between India and China. This will help both countries to optimally meet the challenges in their transition to rising global powers in the 21st century. The task for strategic managers and foreign policymakers in both countries is well cut out: explore and create win-win situations by forging strategic partnerships between these countries. The political environment for this task has become more favourable after the visit of the Chinese Premier, Wen Jiabao, to India in April 2005. The Prime Ministers of both the countries in their joint communiqué had agreed to raise the status of both the countries to the level of ‘strategic partnership.’ The Chinese President, Hu Jintao, has most recently reiterated the ‘established policy of the Chinese government’ to enhance long-term strategic partnership with India. Addressing the fifth annual meeting of the Shanghai Cooperation Organization held in Shanghai (China) on June 15, 2006, President Hu further stated that China-India relations have now entered a ‘new phase.’

Both countries need effective follow-up action on the clarion call by their national leaders. They must work together to fulfil their responsibilities as major drivers of global prosperity in the 21st century. However,

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business-to-business strategic alliances will have to be the major driving force for building further confidence between the governments of both countries. They need to take concrete steps towards operationalization of their strategic partnership at the national level. This will help them to smoothly manage their simultaneous rise as responsible global powers and to contribute their potential share for improving global prosperity, peace, and security.

Exhibit 1: Comparative Performance of China and India during 2003-05

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Unit</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GDP</td>
<td>$ bn</td>
<td>1,649</td>
<td>692</td>
</tr>
<tr>
<td>1A GNI</td>
<td>$ bn</td>
<td>(1,677)</td>
<td>(675)</td>
</tr>
<tr>
<td>2. Share in GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Agriculture</td>
<td>%</td>
<td>15</td>
<td>22</td>
</tr>
<tr>
<td>(ii) Industry</td>
<td>%</td>
<td>52 (39)</td>
<td>27 (16)</td>
</tr>
<tr>
<td>(iii) Services</td>
<td>%</td>
<td>33</td>
<td>51</td>
</tr>
<tr>
<td>3. Per capita GNI</td>
<td>$ bn</td>
<td>1,290</td>
<td>620</td>
</tr>
<tr>
<td>4. Per capita PPP GNI</td>
<td>$ bn</td>
<td>5,530</td>
<td>3,100</td>
</tr>
<tr>
<td>5. Gross domestic capital formation</td>
<td>as % of GDP</td>
<td>45</td>
<td>26</td>
</tr>
<tr>
<td>6. Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Electricity production</td>
<td>Bn KHz</td>
<td>1,641</td>
<td>597</td>
</tr>
<tr>
<td>(ii) Air passengers carried</td>
<td>'000</td>
<td>86,041</td>
<td>19,456</td>
</tr>
<tr>
<td>(iii) Cellular mobile subscribers</td>
<td>Per 1,000 subscribers</td>
<td>215</td>
<td>25</td>
</tr>
<tr>
<td>(iv) Internet users</td>
<td>Per 1,000 people</td>
<td>63</td>
<td>17</td>
</tr>
<tr>
<td>(v) Scientists and engineers employed in R&amp;D</td>
<td>Per million people</td>
<td>633</td>
<td>157</td>
</tr>
<tr>
<td>7. External sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Exports</td>
<td>$ bn</td>
<td>593</td>
<td>73</td>
</tr>
<tr>
<td>(ii) Exports</td>
<td>% of world exports</td>
<td>6.5</td>
<td>0.9</td>
</tr>
<tr>
<td>(iii) Exports of commercial services</td>
<td>$ bn</td>
<td>46</td>
<td>25</td>
</tr>
<tr>
<td>(iv) Imports (source of business income for ROW)</td>
<td>$ bn</td>
<td>561</td>
<td>95</td>
</tr>
<tr>
<td>(v) Forex reserves</td>
<td>$ bn (2003 data)</td>
<td>615</td>
<td>127</td>
</tr>
<tr>
<td>(vi) FDI inflows (mostly overseas)</td>
<td>$ bn (2005 data)</td>
<td>61</td>
<td>5</td>
</tr>
<tr>
<td>8. Poverty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population below poverty line (official data)</td>
<td>%</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>9. Selected social indicators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Adult literacy</td>
<td>% of population</td>
<td>91</td>
<td>61</td>
</tr>
<tr>
<td>(ii) Labour cost per worker in manufacturing</td>
<td>$ per year 1995-99 avg. pa</td>
<td>1,192</td>
<td>729</td>
</tr>
<tr>
<td>10. Population growth rate</td>
<td>% pa</td>
<td>0.8</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: As compiled by Tata Services Ltd. (Department of Economics and Statistics), Statistical Outline of India 2005-06, Mumbai, February 2006.

Note: GNI: Gross national income.

REFERENCES


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I have learned through bitter experience the one supreme lesson to conserve my anger, and as heat conserved is transmuted into energy, even so our anger controlled can be transmuted into a power which can move the world.

–Gandhi