

Implementing Economic & Social Reforms:
Chinese & Indian Paths to Sustainable Development – In
Concert or In Conflict



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Introduction

I have had the good fortune to interact with several people on a daily basis; through my work with companies, universities, foundations, and with entrepreneurs, politicians and activists in both the developed and developing world. I have silently listened to the rhythms of people talking about geopolitics in Beijing, Boston and Delhi and have heard the chant of China and India being invoked with increasing frequency, to express dread, mystery and optimism. These experiences form the basis of my speech today. A decade of doing business and understanding how entrepreneurs in developed and emerging markets deal with each other has enhanced my ability to discern an interesting pattern in the current trend. I draw equally from history and current scholarship in Sino-Indian relations, though I make no pretence of being comprehensive. I have to be especially cognizant as I am Indian, that I will not be biased in India's direction in comparison with China.

As I speak, the Chinese are capitalizing on Indian opportunities and India on China's. Recognizing the availability of opportunities in China and India and the complementarities of their economic systems is the surest route to prosperity for any company around the world. It would be difficult for any global corporation to strategize their business excluding 2.4 billion of the world's population. Economic projections suggest that in less than a generation, China and India will account for nearly 40 percent of the world's trade, a position they occupied a century ago and more than their collective 15 percent today. In discussing the "Asian century", people talk most about the overall development of the South and East Asian countries, including China, India, Korea and Japan. The GNP of the region, which has jumped to 30 percent of the world total from less than four percent half a century ago, is maintaining the momentum of rapid development. The dominant role has been played by China and India in this development and millions of entrepreneurs are ultimately powering this transaction; not just Chinese and Indian businessmen but all those who participate in their growth.

Reforms: A historic perspective

- At the birth of Christ, China and India between themselves held 59 per cent of the world's economy, of which India accounted for 33 per cent and China 26 per cent
- India and China were a highly urban civilization by the 18th century. China was much advanced in science and technology, with gunpowder, printing, paper and paper currency as its inventions. India was known for its mathematics and philosophy. The Chinese gave the world the wheelbarrow and bureaucracy; India gave the world the zero, decimals and Buddhism. Both were major exporters of fine textiles, silks and muslins; their ships sailed around the world and indeed dominated the seas till 1500.

Reforms in India

The reforms in India are usually attributed to the 1991 crisis, the ensuing reform programmes and its impact on the Indian economy. But it does not quite answer some of the more pertinent questions. Why did the reforms take the form they did, marking such a radical change with past policies? Why did the implementation of the new policies proceed fairly smoothly? What led to their success in quickly generating good economic outcomes?

- Incidents that have to be factored in are that,
 1. The breakup of the erstwhile Soviet Union coincided with the Indian financial crisis of the early 1990s. The trade between the two countries had increased from less than \$ 440,548 in 1953 to about \$ 1.7 billion in 1990-91. In 1990-91, more than 16 per cent of Indian exports were to USSR and about 6 per cent imports came from it. Interestingly, the corresponding trade figures for 2006-07 are 0.7% for exports and 1.3 % for imports. After 1953 and till 1971, the trade between India and USSR was based on the Rupee - Rouble rate determined by the gold exchange standard. In 1971, the abandonment of the global gold exchange led to a devaluation of the Rupee against other western currencies (but not gold), thereby putting the Rouble at a disadvantage leading to a collapse of this mechanism with the dissolution of the USSR.
 2. The capitalist ideal was not a major motivator of reforms as economics was not part of the political rhetoric at the time. The general elections of June 1991 was not fought and won under the banner of economic liberalization.
 3. A reason for adopting a gradual approach is that reforms were not adopted due to a prolonged economic crisis or a system failure which would have needed radical restructuring. The reforms were introduced in June 1991 in the wake of a crisis on the balance of payments front. It led to several changes at both the micro and macro level through reduction of industrial licensing; rupee devaluation; import entitlements; phased reduction of customs duties; measures to reduce fiscal deficit; opening up of foreign investments; initiation of banking and capital market reforms; initial divestment of public enterprises and major tax reforms. The pace of reforms was recalibrated to the realities of India's highly pluralistic democratic nature.
 4. Most importantly, the reforms of 1991 had their beginning in the 1980's which saw India leaning towards a technocrat oriented growth and undertaking incremental reforms. As this process of incremental liberalization proceeded and produced good results, many policy makers were convinced that deeper, more systemic changes were needed. Committees were appointed to review various aspects of the economy and recommended further liberalization. Many of these recommendations were implemented in the 1990s.
- Rajiv Gandhi, the most prominent politician of that time who spoke of reforms through deregulation, import liberalisation and access to foreign technology, unfortunately did not live to see his ideas bear fruit. Conversely, the telecom sector is

a perfect case to illustrate the success and sustainability of India's reforms and its impetus came from the 1980's. It also substantiates the fact that the reforms were to a great extent home grown. The major international financial institutions (IMF, World Bank, ADB) played a supportive and constructive role of providing emergency balance of payments financing and bolstering external confidence in the Indian economy.

Till the 1980's, telephones were a privilege of the rich. At one point of time, in India, there were two million telephones for 750 million people. Sam Pitroda, the pioneer of the Indian telecom revolution, dreamt of a resurgent India. He was encouraged by Prime Minister Rajiv Gandhi, who facilitated his plans. The country started setting up rural exchanges and laid a nation-wide telecom infrastructure that became the stepping-stone for telecom growth. The sector turned into the digital Silk Route and India became a proverbial phoenix. She was one of the fastest growing economies in the 1990's, due to cutting edge technology that facilitated rapid growth of the service sector. The service revolution took advantage of India's large pool of technically qualified English speaking work force.

- Indian telecommunication industry is one of the fastest growing telecom markets in the world. The mobile sector has grown from around 10 million subscribers in 2002 to reach 150 million by early 2007 registering an average growth of over 90% year on year
- India embarked on a leap-frog development (It means a predominantly agricultural economy which leap frogs or skips industrialisation and becomes an information and knowledge economy). The policy makers found that technology was the greatest social leveler. It put India's diverse and paradoxical sectors on an equal footing. A technocratic orientation influenced India's reforms and perpetuated an attitude of development and costs reductions that reached out to people and led to an expanding middle class.
- India's advancement in telecommunication, has also allowed other related sectors like telemedicine to flourish. India has become the centre for high quality advanced medical treatment at an affordable price. Examples like Naranyana Hrudalaya, a world class medical facility, show that while catering to the wealthy they also provide quality health care to the poor.
- India's space program has been in a state of transition. Since its inception in the early 1960s, India's space efforts have been focused as a means to raise the standard of living of the nation, not as a tool of geopolitical prestige. Indian remote sensing satellites have been used in roles ranging from disaster management to helping identify sources of drinking water in dry regions of the country and they also support telemedicine and distance learning applications. India's space program is highly need-based, harnessing the high technology to benefit the common man. This ideology is reflected in India's reform movement and focuses on enhancing technologies that bring greater benefits to its diverse population.

China's reforms

The decisions made in the past will script the future.

- Traditionally, the Chinese have used rituals to achieve harmony. Arguably, the emphasis on rituals arose with Confucius (551-479 BC). The signature imprints of some of these rituals are discerned today. Chinese statecraft has always aimed for order, harmony and hierarchy. In 1949, after a civil war between the CCP and Guomindang, in which Mao led the CCP to victory; he made it clear that China would be ruled by a single party. The country's harmony and order would be interlinked by hierarchy, at the apex of which ruled Mao Zedong and a closed-knit group from CCP.
- In 1950 Mao unrolled his economic programmes called collectivization, replacing the village economy and organizing the entire rural peasantry into agricultural communes. All activities in rural China transpired within this ordered framework. As a result of collectivization, the individual Chinese peasant was under six layers of state administration. However the governments social reengineering and restriction on movement led to food scarcity in 1959 and 30 million people starved to death. This massive socioeconomic failure exposed the flip side of order, harmony, and hierarchy in the form of rigidity, censorship and state control.
- When Deng Xiaoping assumed power in 1978, he wished to create a distinct socialist market economy and opted for reforms to bring the country out of poverty. The "Household Responsibility System [HRS]" was introduced in 1978 under which the collective remained the owner of the land and other means of production, but members of the collective could lease portions of the land for as long as fifty years. The lessee could keep any surplus produce generated from the leased land. It was a great success and the scope of government run procurement and distribution was greatly reduced.
- In 1992 some local governments decided to fully liberalize local grain marketing. The agricultural reforms led to a boom that raised rural incomes, creating a huge rural market for consumer goods that in turn "generated a reservoir of savings that funded investment in rural enterprises". It freed up surplus labour, and Town and Village Enterprise [TVEs] emerged to absorb it. TVEs were owned, operated and regulated by local cadres motivated by the central government to raise local GDP. They were the Chinese entrepreneurs. Foreign firms doing joint ventures with TVEs found that despite being completely under party control, they carried their economic weight. In the mid-1990s, TVEs produced 30 percent of China's GDP; moreover, TVEs were responsible for one-quarter of China's tax revenue, one-third of total exports and 28 per cent of the total rural labour force.

- Deng also created Special Economic Zones [SEZs] on experimental basis, to attract foreign investments. TVEs, HRS and SEZs were dramatic breaks from the past. Parallel political and administrative changes were occurring in the countryside.
- Administrative reforms focused on professionalizing state bureaucracy, imposing a rule of law and regulating the market. Under the reforms, to qualify as party members applicants would go through a one year probation period in which they have to prove that they are “red” (ideologically aligned to Deng) and “expert” (technically qualified). In August 1980 Deng abolished the bureaucracy practice of life tenure for senior positions and in 1981 proposed recruiting younger better educated leadership corps.
- The other important element of Deng Xiaoping’s reforms was the state officials and party cadres adjustment to the new socialist market economy resulting in “Enterprise mania”- wherein party officials might serve not only as bureaucrats but also as shareholders. The government became customer, regulator and entrepreneur. The paradox of Chinese reforms has been that, the role of government- central and local has significantly expanded during the transition to a market economy with “Chinese characteristics.” In 1989 due to the June 4th pro-democratic protest in Tiananmen Square, growth slowed but resumed after Deng’s famous tour of southern China in 1992, re-emphasizing economic reforms. China’s GDP per capita rose from \$673 in 1978 to \$5,878 in 2005. Further the number of people living in absolute poverty dropped from roughly 250 million in 1978 to an estimated 26 million in 2004.

Challenges-Concert or conflict

- The decision to reopen Nathu La the world’s highest customs post marked the culmination of a slow but steady process of rapprochement between China and India. The two nations are also reviving their old cultural and religious ties. Beginning in 2012, they will allow tourists to use Nathu La, which will increase the number of cross-border pilgrimages. The pass makes it easy for China’s Buddhists to offer prayers at monasteries in Sikkim, such as Rumtek, and for India’s Hindus and Jains to visit sacred Mount Kailash and Manasarovar Lake in Tibet.
- In the past few years, China (under President Hu Jintao and Premier Wen Jiabao) and India (led by Prime Minister Manmohan Singh) have forged links anew. China now supports India’s bid for a permanent seat on the United Nations Security Council; their armies have held joint military exercises; and at World Trade Organization negotiations, the countries have adopted similar positions on international trade in agricultural products and intellectual property rights.
- The bonds between China and India run deep. Although Nathu La’s reopening may be largely symbolic, it indicates a fresh camaraderie between the planet’s fastest growing economies. Their desire to strike a partnership is evident: high-level official visits often take place between them; business people from each country participate in

conferences held in the other; and forecasts of the flow of goods and services between them keep rising. Sino–Indian trade stagnated at around \$250 million a year in the 1990s, but it touched \$13 billion in 2006, it will cross the \$20 billion mark in 2007, and may exceed \$30 billion in 2008—a growth rate of more than 50% a year.

Conflict

- Naysayers speak of a conflict between China and India; they can only compete, say many academicians. Both nations are vying to be Asia’s undisputed superpower, and they are suspicious about each other’s intentions. China and India have nuclear weapons; they have created the world’s biggest armies; and they are trying to dominate the seas in the region. The very fact that they are neighbors put them in competition with each other. China continues to support Pakistan and India still lets in Tibetan refugees. The United States, meanwhile, plays India against China.
- Moreover, the argument runs, China and India are business rivals at heart. The former’s remarkable economic rise threatens India, which trails its neighbor on almost every conventional socioeconomic indicator. China may be strong in manufacturing and infrastructure and India in services and information technology, but the latter’s manufacturing industry is becoming globally competitive, while China’s technology sector threatens to match India’s in a decade. Both have a growing appetite for natural resources such as oil, coal, and iron ore, for which they compete fiercely. They also fight for capital, especially for investments by multinational companies from North America, Europe, and Japan.
- Another source of conflict is the projection of Chinese power in India’s own neighborhood. China is extending its Tibet railway to Nepal, modernising the Karakoram highway that connects it to Pakistan, investing in infrastructure in Bangladesh and Burma and has mining interests in Afghanistan. In the early years of Chinese economic reform launched in 1978, China’s growth was entirely concentrated in its coastal provinces. But once China decided to develop its inland provinces it was inevitable that South Asia too would be affected by China’s rise. There is no way India can stop the steady rise of Chinese influence in various sub-regions of Asia. The only thing India can do is to emulate China in expanding its own strategic profile in these regions. India’s stated position is that “there is room for both India and China to rise in Asia”. Managing this immensely dynamic relationship with China will be the single most important challenge for India’s security policy in the coming years.
- Various powers have jockeyed for political and economic leverage in Afghanistan. Since the time Alexander the Great came to India in 4th century BCE, the land between the Indus river and the Hindu Kush mountains has been the principal theatre shaping the security dynamic of the subcontinent. All great empires in India had constantly struggled to maintain control over the region and prevent other powers from penetrating into the subcontinent. The Great Game of the 19th Century between Britain and Russia was part of the same pattern. The Soviet occupation of Afghanistan during the 1980s and the US intervention in Afghanistan since 2001 too are similar in terms of their impact on the security of South Asia. The swearing-in

ceremony of Asif Ali Zardari as president of Pakistan in Islamabad on September 9th 2008 was a case in point that highlighted the key players in the geopolitics of the region. It was attended by the President of Afghanistan, Hamid Karzai and China and India found mention in the policy outlined. While Pakistan's new civilian leadership signaled a desire to improve relations with India, he also expressed his wish to make China the destination of his first official foreign visit.

- In Nepal, Prachanda's trip to Beijing, his first as the new prime minister, shows a pointed inclination to engage with Beijing. Since the early 1960s, every regime in Nepal which has seen itself as a "yam between two rocks" has played balance of power politics between New Delhi and Beijing
- All this makes it difficult to believe that China and India can ever cooperate. Can China and India work together? Can India catch up with China?

Concert

- The above perspective is incomplete. In the next decade, they will become the largest and third-largest economies in terms of purchasing power. By 2016 they will account for around 40% of world trade, compared with 15% in 2006. Past events, such as Germany's reunification and the fall of the Iron Curtain, cannot be compared to that of these two nations' opening up. After those occurrences in 1990, a large number of people entered the global economy, but the numbers pale in significance when compared with China-India together. The world's future is tied to China and India.
- The tensions between China and India are real, but it will eventually prove to be aberrant. There are three good reasons for believing that they will evolve in concert: one historic, one economic, and one strategic.

1. China and India sealed their borders in modern times, but in the 2,000 years preceding the conflict of 1962, the two countries enjoyed strong economic, religious, and cultural ties. By the second century BCE, the southern branch of the Silk Route - an interconnected series of ancient trade routes on land and sea - linked the cities of Xi'an in China and Pataliputra in India. Trade on the Tea and Horse Road, as the Chinese called it, was a significant factor in the growth of the Chinese and Indian civilizations. Seen in that light, the closing of the Sino-Indian border is an anomaly.

- In fact, Buddhism traveled from India to China in 67 AD along the Silk Route. In those days, the relationship between China and India was one of mutual respect and admiration. The monk Fa-hsien (337 to 422 AD), who traveled from China to India to study Buddhism, referred to the latter as *Madhyadesa* (Sanskrit for "Middle Kingdom"), which is similar in meaning to *Zhongguo*, the word the Chinese used to describe China. In the 1930s, Hu Shih, a scholar of the Beijing University said that the sixth century AD marked the "Indianization of China."
- There was also much goodwill after the birth of the two modern states, India in 1947 and China in 1949. During the 1930s Jawaharlal Nehru

frequently wrote about how India supported the struggles of fellow Asians under the foreign yoke. He organized marches in India in support of China's freedom, organized a boycott of Japanese goods, and in 1937 sent a medical mission to help the Chinese. India was the second non-communist country, after Burma, to recognize the People's Republic of China, in 1950. Five years later, India supported the idea that China should attend the Bandung Conference, in Indonesia, which led to the creation of the Non-Aligned Movement, an alliance of developing countries that supported neither the United States nor the Soviet Union. In those years, one slogan heard in India was *Hindi Chini Bhai Bhai* ("Indians and Chinese are Brothers"). The slogan hasn't been forgotten; China's premier, Wen Jiabao, repeated it in 2006 when he visited the Indian Institute of Technology in Delhi.

2. Economists state that neighbors tend to trade more than other nations do. An official committee set up to encourage commerce between China and India recently suggested that bilateral trade could touch \$50 billion by 2010. Even the official numbers understate the potential, according to economists who use gravity models to estimate what the trade between two countries should be. Sino-Indian trade today is up to 40% less than it could be, according to those models.
3. China and India, after they cut themselves off from each other, evolved in complementary ways that reduced the competitiveness between them. What China is good at, India is not - and vice versa. China and India have taken different routes in economic reforms and that has resulted in their gaining complementary strengths. China instituted sweeping economic reforms in 1978 and has steadily opened up thereafter. A balance of payments crisis led to India's economic reforms in 1991. China uses top-down authority to channel entrepreneurship; in fact, the government is the entrepreneur in many cases. India revels in a private sector-led frenzy and diversity. There are no two countries more yin and yang than China and India.
 - These complementarities pose both an opportunity and a threat. It's easy to spot the advantages of treating China and India synergistically and getting the best of both worlds. Companies can use China to make almost anything at a reasonable price. They can turn to India to design and develop products cost-effectively; they can also hire Indian talent to market and service products. For instance, China's Lenovo, which purchased IBM's PC business in 2005, recently moved its global ad-management function from Shanghai to Bangalore.
 - WTO - liberalization of foreign trade is a watershed in the development policy of both India and China. To start with, both the countries adopted inward looking import substitution policies with an emphasis on self-sufficiency. Later in Reforms in 1978, China adopted the policy of 'opening up to the outside world' and in 1991, India initiated an import liberalization policy. Comparative advantage replaced self-sufficiency as the basic tenant of trade policy and both the countries are now pursuing

market-oriented and outward-looking policies. India has been a member of the WTO since its inception and China joined the WTO in the year 2001. China's entry into the WTO has provided new opportunities and challenges for both the countries to establish cooperation in the areas of negotiations. India and China could take a common stand in issues such as agriculture subsidies, trade related aspects of intellectual property rights, trade facilitation, trade in services and trade dispute settlement, to name a few.

Instances of Cooperation

- As the Chinese government tries to develop a software industry, Indian companies such as **Infosys, Tata Consultancy Services, and Satyam** have been among the first to recruit Chinese engineers.
- China's **Huawei** is leveraging India's technical know-how to sustain its global edge against western giants like Cisco. In 1999 the Chinese telecommunications equipment manufacturer set up an Indian company that currently employs around 1,500 engineers. This facility based in Bangalore, develops software solutions in areas such as data communications, network management, operations support systems, and intelligent networks. In 2006, the company opened a second facility where 180 software engineers develop optical network products and wireless local-area-network solutions. Huawei has announced that it will invest an additional \$100 million to create a single 25-acre campus in Bangalore for 2,000 people. This will enable Huawei India to enter new areas such as optical-transmission networking and sharpen its focus on third-generation networking
- China and India are incredibly energy-deficient, with China importing almost 50 per cent of its oil needs and India more than 70 per cent. China and India are intense rivals in the international energy industry. Between January and October 2005, China's **Sinopec and China National Petroleum Corporation (CNPC)** and India's **Oil and Natural Gas Corporation (ONGC)** clashed over purchases of oil assets in Angola, Ecuador, Kazakhstan, Myanmar, Nigeria, and Russia. Although the Chinese companies won several contracts, they paid more because of the Indian company's aggressive bidding. The Chinese and Indian governments signed an agreement in January 2006 about working together on bids for energy resources, and the oil companies signed memorandums of understanding. The Sino-Indian oil hunt has delivered results. In December 2005, CNPC and ONGC won a bid for a 37% stake in Syria's Al Furat Petroleum. Another joint venture between Sinopec and ONGC won a 50% stake in the Colombian oil company Omimex de Colombia in August 2006. In April 2007, ONGC and CNPC agreed to team up to acquire oil assets in Angola and Venezuela. They may also offer each other stakes in other companies they have invested in. Thus, enterprises that were thought to bid up the prices of oil assets dramatically are working together in the best interests of China and India.
- The impact that can be made by a joint entrepreneurial venture between the two countries is exemplified by **Mahindra & Mahindra (M&M)**. M&M's rise marks the coming of age of the entrepreneurs from India and China. The joint venture between M&M and Nanchang City government was named Mahindra (China) Tractor and

they developed an under-forty-horsepower tractor tailor-made for the US market, where it is making great inroads. M&M's market share for under-seventy-horsepower tractors in the United States grew to 6 per cent, and in core markets in southern states reached 20 per cent. The design and engineering were done in India and the prototype was built in China. This union is remarkable given the difference; in China the government is the entrepreneur; in India, entrepreneurs have stayed as far apart from the state as feasible. Such cooperation is highly profitable to both sides.

Challenges

1. In China, domestic consumption must increase; China must lower its reliance on exports and foreign direct investment (FDI) to drive growth.
2. Chinese officials including Vice-Premier Zeng emphasized that China would set a "moderate" growth target of 8% to allow for greater focus on social programmes and initiatives for sustainable development.
3. India has urgent problems to tackle, including poor infrastructure, widespread poverty and widening income disparities particularly between urban and rural areas, limited manufacturing capabilities and deficiencies in education. Nevertheless, the self-styled "fastest growing free market democracy in the world" is proving that pluralism and growth are compatible.
4. China and India are very different. In part, this is a reflection of India's largely agricultural economy, in contrast to China's established manufacturing economy. Despite their huge differences, in recent months the two have faced a common set of big problems: a global slowdown, rising inflation, big foreign exchange inflows, excess liquidity and pressure on their currencies to appreciate. The way New Delhi and Beijing have managed these pressures are remarkably similar in many ways. Both India and China are slowing, predominantly because of US weakness, cost pressures and domestic tightening measures (both raised interest rates in 2007, India two times, China five). So far in 2008, India has already raised rates twice by a total of 75bps (the repo rate is now at 8.5%). India should grow 7.4% y-o-y in fiscal 2008/09, China at 9.5% in 2008.
 - Dangerously high inflation -Both India and China are threatened because of inflation. Inflation in India hit a 13-year high of 11.63% y-o-y in June, more than 600bps above the RBI's comfort zone. China's CPI moved to a six-month low of 7.1% y-o-y in June.
 - Fuel prices were hiked in India in February (by a nominal 3%-5% for gasoline and HSD) and more recently in June (by 9%-17%), while Beijing recently hiked retail gas prices by almost 17% in June, after a 20% move in November 2007.
 - The World Bank's Doing Business survey shows substantial burdens on starting a business in time: red tape and initial costs. Starting a business, for example, takes 35 days in China and 33 days in India, more than five times the United States' six days.
 - Compared with the U.S., the cost of start-up procedures for entrepreneurs is 106 times higher in India and 12 times higher in China, according to the Doing Business survey.

Enforcing contracts is particularly difficult in India, where the process typically takes three years.

- China and India rank in the bottom 10 of the 60 countries on the A.T. Kearney/Foreign Policy Globalization Index, suggesting they still have a way to go in integrating into the world economy. The two countries also fare badly on Transparency International's assessment of corruption.
- Caste, rather than being irrelevant in modern India's socialist democracy, became a defining characteristic of its polity. The marginalization of the polity was exacerbated by caste-based special interests demanding their own quota and reservations. India is a soft state in Myrdal's famous description. India's diversity in language, religion, caste, 'ethnicity,' race and other coordinates, has been attached to ideological movements. These identity movements have mobilized into ethno-nationalism and have a profound effect on Indian politics and economy. It poses a serious challenge to be addressed.
- On Aug. 4, 2008, Moody's (MCO) also cautioned investors about a possible downgrade of India's credit rating. The culprit is inflation, now over 12%. India's public finances are feeling the pressure from high oil and fertilizer subsidies, hefty payouts for government employees - which will equal 2.4% of the country's \$1 trillion gross domestic product - and a \$15 billion farm debt forgiveness program whose efficacy is yet to be determined.
- China on the other hand, faces a fiat government, it is a hard but brittle state and the Olympics have opened its one party system to further criticism.

Addressing Challenges:

- Today, China-India relations are on a fast track. Politically, both sides have maintained high-level visits. Prime Minister Manmohan Singh's visit in January 2008 led to the signing of "A Shared Vision for the 21st Century of China and India."
- Economically, both have enjoyed a fast pace of trade growth: it was 50 per cent in 2007. Two-way trade was worth \$38.7 billion in 2007. In the first quarter of 2008, China became India's top trading partner. During Mr. Manmohan Singh's visit the two sides increased the trade target from \$40 billion to \$60 billion by 2010. Mutual investments are expanding. A feasibility study on a China-India Regional Trading Arrangement has been done.
- Today, more than 150 Indian enterprises have sub-companies or representative offices in China. Over 60 Chinese companies are engaged in infrastructure projects in India.
- Exchanges are expanding. In 2007, people-to-people exchanges exceeded 520,000. The two armies have interacted. The first defence and security consultation and the first joint anti-terrorism training were held last year. In science and technology, contacts and exchanges continue.
- There is a growing convergence on international and regional affairs. Mechanisms for a strategic dialogue, foreign policy consultation and a dialogue on anti-terrorism have been established. They consult and coordinate. Both cooperate

- closely in the U.N., the World Trade Organisation, G8+5, and in regional groupings.
- On issues affecting China's core interests, India has maintained consistent policies. It recognises the Taiwan province and the Tibet Autonomous Region as being part of China and does not allow on Indian soil any anti-China activity. India made great efforts to ensure that the Olympic Torch Relay in New Delhi was a success. It offered in a generous and timely manner, relief material worth \$5 million to the victims of the earthquake in Sichuan in China.
 - Of course, there are some outstanding issues. But both are mature enough to handle the differences in the best possible manner. On the boundary issue, the two sides have established the mechanism of Special Representative and held 12 rounds of talks. Both are committed to resolving the dispute through negotiations on the basis of the "Agreement on Political Parameters and Guiding Principles for the Settlement of the China-India Boundary Question" that was concluded in 2005. Pending a final solution both will do their best to maintain peace and tranquility along the border.
 - At the same time, political trust between two countries needs to be enhanced. Communications and contacts need to be expanded to bridge the gap of information. To sustain bilateral trade, joint efforts need to be made to expand the scope of products suitable for the two huge markets. The trade imbalance, currently in China's favour, needs to be minimised.
 - China views its relationship with India as one of global and strategic importance. It takes a positive view on India's rise, and considers the development of either side as a contribution to peace, stability and prosperity in Asia and the world, rather than as a threat. China attaches importance to India's position as a major developing country, and understands and supports its aspirations for a greater international role. Any assumption that rivalry between China and India is inevitable as they grow is untrue: the "world's factory" and the "world's office" can indeed complement each other. The two countries know that if they join hands both will prosper; if they fight both will suffer. As Mr. Manmohan Singh said, "there is enough space for India and China to grow together."

Recent Developments:

China

- During the 29th **Olympiad** more than 80 foreign heads of state attended the opening ceremony and many more business people were in Beijing to 'size up' China's domestic market as well as watch the games. Since the transitional period following China's accession into the World Trade Organisation (WTO) ended, the country's market of services such as logistics, circulation, telecom and finance has opened up and turned the country into a vast reservoir for direct investment. The Beijing Olympics on the other hand will usher in another influx of foreign investment by services such as commerce, finance and travel from around the world. The capital's gross domestic product (GDP) was expected to register an average annualized 11.8 percent growth between 2005 and 2008, when the city was investing for the games, said Chen Jian, the Beijing Olympic Economy Research Association deputy head.
- The reason for this development is very simple. The short-term economic impacts will result from new dollars brought into the region, related sporting and cultural events, the media, pre-Olympic training, marketing activities, athletes, officials, spectators, and other visitors. The initial injections of new dollars will occur primarily in and around Beijing, and to a lesser extent in the other games venues like neighboring Tianjin and Qingdao, but re-spending of these dollars will have effects that will be felt statewide.
- The long-term benefits, or major legacies, fall into three categories: (1) the creation of world-class facilities; (2) national and international recognition of city and state through extensive media exposure; and (3) community benefits including local volunteerism, job creation and training, youth and education programs, funding for community economic development projects, and cultural programs.
- Reform and opening-up have given China three decades of sustained economic boom so far and one of the driving forces behind this explosive development has been foreign investment. By successfully hosting a great Olympiad in Beijing, China has sent a message to the rest of the world: the post-Olympics China will be an open, transparent, fair, just and dynamic market where the Olympic Spirit thrives and universal rules govern fair competition. This means foreign investment from around the world led by developed countries will unavoidably flow to the 'rules-minded Chinese market'. The effective combination of a fully open Chinese market with healthy foreign investment and local capital filled with the spirit of all-round participation will no doubt bring about a milestone upgrade of China's market economy system to suit the new era.
- President Hu Jintao vowed "comprehensive" political and economic reforms in the wake of the Beijing Olympics.

- It was reported in *The New York Times* that labour costs continued to increase and a shortage of unskilled labor. The demographic shift resulting from the one-child policy continued to reduce the supply of young entry-level workers.

India

- The most significant reforms that India wants to pursue are related to the financial services sector. Chidambaram, the finance minister had announced on several occasions that the government was determined to raise the ceiling on foreign direct investment (FDI) in the insurance sector from 26 per cent to 49 per cent.
- The Pension Fund Regulatory and Development Authority bill has been stalled in Parliament, but of late the government has indicated that it will soon be passed. The act will allow foreign pension funds to set up joint ventures with a 26 per cent stake.
- The Banking Regulation (Amendment) Bill aims to give foreign investors voting rights in proportion to their equity holding in banks instead of capping it at 10 per cent. The government also wants the country's largest commercial bank, the public sector State Bank of India, to go in for a merger with its subsidiaries and associates. It is also keen to reduce the government holding in nationalised banks. The pending bill will bring about dramatic transformation in the Indian financial services sector.
- The cabinet in 2008 cleared a new mineral policy that is expected to attract foreign investment to the tune of \$250 million a year in the mining sector. An amendment bill will be introduced during the budget session of parliament to bring about a suitable amendment in the Mines and Minerals (Development and regulation Act 1957), the Mineral Concession Rules, 1960 and Mineral Conservation and Development Rules, 1988, to give effect to the new National Mineral Policy 2008. It will reduce time delays in disposing off mining applications, boost foreign direct investment and protect the risk capital to be invested and provide automatic mining rights to miners. Delays in ensuring mining leases are believed to be a key reason behind meager investments in this sector, which has the potential of roping in FDI. The Cabinet also gave its approval for an independent dispute resolution mechanism, which would be made fully operational within six months.

Conclusion

- Albert Einstein said, “We owe a lot to the Indians, who taught us how to count, without which no worthwhile scientific discovery could have been made!”
- India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grand mother of tradition. Our most valuable and most astrictive materials in the history of man are treasured up in India only!- **Mark Twain**
- China and India’s rise in today’s world is changing the way we live and the balance of global economy and political power. Their prosperity has come from engaging the rest of the world, as they strive towards their rightful place in the global economy- a place they held two centuries ago. Looking at recent trends of cooperation, it is indicative of what will come in the near future as India and China strive to make the best use of their complementary strength. They form the perfect Yin and Yang, capitalising on the resilient link between them through the centuries. China and India’s rise is not only inevitable but will also be beneficial to the world. As Confucius said, "Everything has its beauty, but not everyone sees it", it is time for the world to see the great opportunity the rise of these two nations provide.