

India-China Strategic Economic Dialogue (SED): Progress and Prognosis

Jagannath Panda

Dr Jagannath Panda is Research Fellow and Centre Coordinator for East Asia at the Institute for Defence Studies & Analyses (IDSA), New Delhi

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Summary

This work reviews the significance and progress of Strategic Economic Dialogue (SED) in India-China relations. It argues that the scope, import and substance of the SED call for a review and introspection after the three rounds of meetings. The SED today symbolizes the strategic import and character of the India-China regional and global relationship discourse. But addressing macroeconomic subject matters that concern the two countries' strategic interests requires methodological deliberations and mature discussion that must be balanced and nuanced. The SED needs to be upgraded to a level of equal deliberation mechanism, where Beijing must address India's economic and strategic concerns.

Introduction

Is India-China Strategic Economic Dialogue (SED) an institutionalized and established process now? The third round of the SED was held in Beijing from 17-18 March 2014, in which the two sides discussed at length issues concerning international, bilateral and domestic economic conditions and deliberated on how to expand their bilateral and international cooperation. They discussed firming coordination in BRICS, G-20, UN, enhancing cooperation in trade, investment and economic fields, and forging greater cooperation among the key industries between the two countries.¹ While some of the sentiments expressed in this round are genuine and generate a new level of India-China interactions, it needs to be seen where and how exactly this interaction can go forward. This round was conducted with the assistance of five Working Group mechanisms, namely, policy coordination; infrastructure; resource conservation and environmental protection; hi-technology; and energy.² The Working Group mechanism has been key for progress and institutionalization of the SED. In May 2013 five Chinese Working Groups visited India and in September 2013 five Indian Working Groups visited China to prepare the ground for the third SED.

This essay analyses the significance of SED in India-China engagement. Besides this introductory section, it comprises four sections: *first*, it reviews the importance of SED; *second*, it delves into the areas of convergence and divergence; *third*, it explains how China's current economic and financial pre-eminence has overlooked addressing India's bilateral concerns, which creates unevenness in the SED. The essay concludes with the caveat that while the scope of the SED is relatively high today because of constant institutional engagement, it will remain limited unless the fundamental bilateral economic issues are addressed.

The SED Mechanism So Far

Usually held between the counterpart planning commissions of the two countries – the Planning Commission of India and the National Development and Reform Commission (NDRC) of China – SED is gradually becoming a mechanism of import. India and China are not only big economic powers, being the third and second largest global economies, but the panoply of their engagement has been upgraded to a new level of global and autonomous standing today. This is important when world politics has become more multipolar in nature and the two countries are engaged with each other in a range of bilateral, regional, cross-regional and global multilateral forums.

A range of dialogue mechanisms exists in India-China interactions, both at the official and non-official levels and at the political and non-political levels. The SED was first mooted in December 2010 when Premier Wen Jiabao visited India. Beijing hosted the first

¹ *Minutes of the Third India-China Strategic Economic Dialogue*, March 18, 2014, Embassy of India: Beijing, at <http://www.indianembassy.org.cn/newsDetails.aspx?NewsId=476> (accessed 24 March 2014).

² Ibid.

SED round on 26 September 2011 and New Delhi hosted the second round on 26 November 2012. The rise of emerging economies within Brazil-Russia-India-China-South Africa (BRICS) forum furthers the importance of the SED. The first SED round was led by Zhang Ping, the then Chairman of NDRC, and Montek Singh Ahluwalia, Deputy Chairman of India's Planning Commission. Some of the issues covered were the global economic condition and the macroeconomic situation at the domestic level; mid- and long-term developmental plans; energy efficiency, conservation & environmental protection; infrastructural cooperation; water use efficiency; and use of clean water technologies.³ The second round reiterated that the primary aim of this dialogue mechanism was to "improve macroeconomic policy coordination" between two economies.⁴ It emphasized global economic cooperation, enhancing mutual communication on macroeconomic policies, expanding trade and investment, and expanding cooperation in financial and infrastructural sectors.

It had been agreed to hold the third round in 2013, but the event was postponed. The tensions arising out of People's Liberation Army's (PLA) incursion in Ladakh in the India-China border region and Xi Jinping and Li Keqiang's assumption of power in China as new leaders may have been the reasons for this postponement. Nevertheless, the importance of SED was reiterated during the new Premier's visit to India, stressing its active role in promoting "macroeconomic policy coordination" and "pragmatic cooperation" in various fields.⁵ The two sides agreed to strengthen cooperation in issues concerning energy, environment, new and renewable energy and high technology cooperation. They also agreed to enhance collaboration in the railway sector, noted the vitality of the Doha Development Round, expressed their intention for a bilateral Regional Trade Arrangement and reviewed the state of Regional Comprehensive Economic Partnership (RCEP) negotiations.⁶ In the third SED, for cooperation in railways, *three* specific areas have been chosen: station development, raising the speed of passenger trains in India and for heavy haul freight. China will assist India in improving its railway tracks to enable faster movement.⁷ Besides, China is supposed to construct high-speed tracks in three sectors – Delhi-Agra, Delhi-Kanpur and Delhi-Chandigarh.

³ *Agreed Minutes of the 1st India-China Strategic Economic Dialogue*, September 26, 2011, Ministry of External Affairs: Government of India, at <http://mea.gov.in/bilateral-documents.htm?dtl/5100/Agreed+Minutes+of+the+1st+IndiaChina+Strategic+Economic+Dialogue> (accessed 21 March 2014).

⁴ *Agreed Minutes of the 2nd India-China Strategic Economic Dialogue*, November 26, 2012, Ministry of External Affairs: Government of India, at <http://www.mea.gov.in/bilateral-documents.htm?dtl/20848/Agreed+Minutes+of+the+2nd+IndiaChina+Strategic+Economic+Dialogue> (accessed 20 March 2014).

⁵ Notably, the first India-China CEOs Forum took place during Li Keqiang's tour of India. See *Joint Statement on the State Visit of Chinese Premier Li Keqiang to India*, May 20, 2013, Ministry of External Affairs: Government of India, at <http://www.mea.gov.in/bilateral-documents.htm?dtl/21723/Joint+Statement+on+the+State+Visit+of+Chinese++Li+Keqiang+to+India> (accessed 21 March 2013).

⁶ Ibid.

⁷ *Opening Remarks by Shri Montek Singh Ahluwalia, Deputy Chairman, Planning Commission at 3rd SED*, March 18, 2014, Embassy of India, Beijing, China, at <http://www.indianembassy.org.cn/newsDetails.aspx?NewsId=472> (accessed 21 March 2014).

A number of factors explain the importance of SED interaction. *First*, both countries participate in various regional and global multilateral institutions and frameworks such as Russia-India-China (RIC), BRICS, BASIC and G-20. *Second*, they share a common interest in preventing protectionism in the multilateral trading system.⁸ They also share similar sentiments about reforming global financial institutions like the IMF, WTO and World Bank. Their interactions and deliberations are important not only for their individual stakes in these bodies but also for the rest of the developing world, such as improving voting rights. SED is an appropriate forum for this. *Third*, macroeconomic issues need joint deliberations, but bilateral consensus should be there in the first instance. As developing countries and two fastest emerging economies of the world, much of the global economic sustainability heavily depends upon both China and India. SED creates conditions for them to coordinate in regional and global economic dealings.

Need for Serious Global and Regional Prognosis

India and China have several dialogue mechanisms besides SED, such as India-China Financial Dialogue, India-China Defence and Security Dialogue (*Table 1 for details*), India-China Strategic Dialogue, and India-China Joint Economic Group (JEG) etc. On 20 August 2013, the fifth round of the India-China Strategic Dialogue was held in New Delhi. Bilateral issues like utilization of trans-border river waters, enhancing trade and investment contacts and trade imbalance and global issues such as the Bangladesh-China-India-Myanmar (BCIM) economic corridor project, possible cooperation under BRICS, emerging politics in Asia-Pacific and post-2014 Afghanistan politics were matters of discussion.⁹ In 2014, in the sixth round of India-China Defence and Security in New Delhi, the two sides discussed bilateral, regional and global security issues of strategic substance and of mutual concern, involving security conditions in South Asia, Asia-Pacific and the Indian Ocean.¹⁰ The two sides have also conducted six rounds of financial dialogue regarding multilateral cooperation in bodies like G 20 and Asian Development Bank (ADB). The three key issues in the dialogue have been infrastructural investments, sustaining Asia's economic growth conditions and establishing closer coordination between developed and developing economies to address the global economic situation. While most of these mechanisms overlap each other, there is no denying that India-China interaction today is more methodological: these mechanisms involve stronger global, regional cross-continental and bilateral dealings in a range of economic, security and strategic issues.

⁸ *Joint Statement on the State Visit of Chinese Premier Li Keqiang to India, May 20, 2013*, Ministry of External Affairs: Government of India, at <http://www.mea.gov.in/bilateral-documents.htm?dt1/21723/Joint+Statement+on+the+State+Visit+of+Chinese++Li+Keqiang+to+India> (accessed 21 March 2013).

⁹ *The 5th India-China Strategic Dialogue*, Ministry of External Affairs: Government of India, New Delhi, August 20, 2013, at <http://www.mea.gov.in/press-releases.htm?dt1/22082> (accessed 25 March 2014).

¹⁰ *6th India-China Defence and Security Dialogue Held*, Press Information Bureau: Government of India, Ministry of Defence, February 24, 2014, at <http://pib.nic.in/newsite/PrintRelease.aspx?relid=104189> (accessed 25 March 2014).

Table 1: Chronology of India-China Dialogues

Financial Dialogues			
Round	Date and Venue	Represented by	Major Issues Discussed
First	7 April 2006, New Delhi	Ashok Jha (Secretary, Department of Economic Affairs, India); Li Yong (Vice Minister of Finance, China)	Macroeconomic situation; promotion of sustainable development strategies for economic growth, etc.
Second	4 December 2007, Beijing	Subba Rao (Finance Secretary, India); Li Yong (Vice Minister of Finance, China)	Macroeconomic situation; fiscal policies that can promote sustainable development
Third	16 January 2009, New Delhi	Ashok Chawla (Secretary, Department of Economic Affairs, India); Liao Xiaojun (Vice Minister of Finance, China)	Global economic conditions; G-20; financial sector reforms in the two countries
Fourth	2 September 2010, Beijing	Ashok Chawla (Finance Secretary, India); Zhu Guangyao (Vice Minister of Finance, China)	Global financial crisis; macroeconomic situation and policy; financial stability and development; G-20; climate change etc.
Fifth	8 November 2011, New Delhi	R. Gopalan (Secretary, Dept of Economic Affairs, India); Wang Baoan (Assistant Minister of Finance, China)	International economic situation; G-20; enhancing bilateral cooperation in global financial institutions
Sixth	26 September 2013, Beijing	Arvind Mayaram, Secretary, Economic Affairs, India; Zhu Guangyao (Vice Minister of Finance, China)	Macroeconomic policies; international economic conditions; IMF quota reforms; BRICS cooperation. etc.
Defence and Security Dialogues			
Round	Date and Venue	Represented by	Major Issues Discussed
First	November 2007, Beijing	Bimal Julka, Joint Secretary (G/Air); Ministry of Defence, India; Major Gen. Qian Li Hua, Chief of FAO, MND, China	Confidence building measures (CBMs); peace and stability in border, etc.
Second	December 15, 2008, New Delhi	Vijay Singh, Defence Secretary, India; Lt. Gen. Ma Xiaotian, China	CBMs; peace and stability in the border; bilateral interaction
Third	January 6, 2010, Beijing	Pradeep Kumar, Defence Secretary, India; Ma Xiaotian (Dy. Chief of General Staff) and Liang Guanglie, Defence Minister, China	CBMs and joint military exercise
Fourth	December 9, 2011, New Delhi	Shashikant Sharma, Defence Secretary, India; Ma Xiaotian, Deputy Chief of General Staff, China	Defence Exchanges for 2012; agreed to enhance cooperation and interaction
Fifth	January 14, 2013, Beijing	Shashikant Sharma, Defence Secretary, India; Qi Jianguo, Deputy Chief of General Staff, China	Security issues in Asia-Pacific; India-China border
Sixth	February 24, 2014, New Delhi	R.K. Mathur, Defence Secretary, India; Lt. Gen. Wang Guanzhong, Deputy Chief of General Staff, China	Military-to-Military Exchange, Security situation in South Asia, Asia-Pacific and the Indian Ocean

Sources: Various, such as Ministry of External Affairs (MEA), Govt. of India, *Times of India*, *The Hindu*, *Economic Times*, *China Daily*, *Global Times*, *Xinhua*, *China.org.cn*, Ministry of Commerce, Govt. of China, etc.

As regards the SED, this dialogue mechanism requires particular focus on two aspects: *economic multilateralism* that is linked to various geo-political issues, and *political multilateralism* that is linked with geo-economics. Greater cooperation in global financial bodies such as the IMF, WTO and the World Bank is one aspect that needs careful discussion in SED in the future. The principal outlook on forging a common perspective on “developing country” and “emerging economies” phenomenon needs serious debate, at least from India’s perspective. China today is a leading country in many global financial institutions and has also emerged as a big donor in a number of international agencies. India needs to be assured by China that the “developing country” formula will continue to be common to both countries in terms of vision and strategy in the coming times. Currently, there is a question mark on this aspect, considering that the new Chinese leadership is pushing forward the idea of a “new type of major power relations”, promoting China’s status as a power equivalent to the USA. This is being promoted concurrently with the strong US-China Strategic and Economic Dialogue (SE&D).¹¹

Table 2: BRICS and other Developed Economies, Quota and Votes in the IMF (by 30 March 2014, % of total)

	Brazil	Russia	India	China	South Africa	USA	Japan	Germany	UK	France
Quota	1.79	2.5	2.44	4	0.78	17.69	6.56	6.12	4.51	4.51
Votes	1.72	2.39	2.34	3.81	0.77	16.75	6.23	5.81	4.29	4.29

Source: International Monetary Fund at <http://www.imf.org/external/np/sec/memdir/members.aspx#A> (accessed on March 31, 2014)

The India-China SED needs to discuss seriously the issue of reforming the global financial bodies. Both countries have for long advocated their reform, but common and decisive joint perspective is still missing. Besides, a solid understanding between the two is required for improving voting rights and quota in the IMF (Table 2: India’s and China’s quota and voting rights along with BRICS members in IMF in compared to developed countries). Despite being the second and third largest economies in world ranking, their voting rights and quotas are far from impressive. Climate governance is another important issue that SED could discuss seriously in future. Climate change is not simply an issue of governance today but a macroeconomic issue that involves economic and political multilateralism. In the BASIC (Brazil-South Africa-India-China) climate grouping, the two sides have viewed climate change as a “threat and challenge” to humanity and to the goal of sustainable development. Greater deliberation is needed between the two on how to address

¹¹ David Shambaugh, “A Big Step Forward in U.S.-China Relations”, *China & US Focus*, July 19, 2013, at <http://www.chinausfocus.com/foreign-policy/a-big-step-forward-in-u-s-china-relations/> (accessed 27 March 2014).

“sustainable development” that is linked to “poverty eradication” in both India and China. Greater consensus is also needed on sustainable development where the two countries must take a lead along with other BASIC and BRICS members on the COP18/CMP8 on Doha principles, which is to be concluded by 2015.¹² Further, working group on environment in SED must delve into where and how the two countries can cooperate in line with Rio principles of sustainable development.

Cooperation on financing projects and obtaining loans from various international banks also needs discussion and closer understanding between the two. Mr. Saumitra Chaudhuri, Member of India’s Planning Commission, raised this issue during the third SED round, stating that greater cooperation is needed in multilateral forums like G-20 and ADB.¹³ The matter of the ADB is particularly significant here. In 2009, China’s foreign ministry opposed strongly India’s loan application in the ADB for infrastructure development in its state of Arunachal Pradesh in terms of the “Country Partnership Strategy for India (2009-2012)”. Qin Gang, the then foreign ministry spokesperson of China, expressing strong objection over the issue, stated that ‘ADB as a regional development agency must not interfere in political affairs of its members’.¹⁴ China has enormous clout in the ADB: by 2009, it was the third largest donor to it after the USA and Japan.¹⁵ It has been five years after this issue raised its head, but no India-China dialogue mechanism has addressed it, including SED.¹⁶ It needs to be stressed that the SED mechanism loses much of its significance if it cannot de-link the security aspects from the economic aspects. The SED is the most appropriate forum to discuss this issue of ADB as it has two working mechanisms: *policy coordination* and *infrastructure*. Prime Minister Manmohan Singh in his speech on India-China relations at the Central Party School in Beijing (24 October 2013) stressed the issue, saying, “... we need to pay much greater attention to the expansion and modernization of our infrastructure. India plans to invest one trillion U.S. dollars in infrastructure in the next five years and we would welcome China’s expertise and

¹² “BRICS and Africa: Partnership for Development, Integration and Industrialization”, *eThekwini Declaration*, Fifth BRICS Summit, Durban, South Africa, 26-27 March 2013, at <http://www.brics5.co.za/about-brics/summit-declaration/fifth-summit/> (accessed July 3, 2013)

¹³ *Member Planning Commission’s Speech at 3rd SED*, India-China Third Strategic and Economic Dialogue, Comments of Mr. Saumitra Chaudhuri, Member, Planning Commission on Financial Issues, 18 March 2014, Beijing, 17-20 March 2014, at <http://www.indianembassy.org.cn/newsDetails.aspx?NewsId=474> (accessed 21 March 2014).

¹⁴ “China “dissatisfied” with ADB document involving China-India border dispute”, *People’s Daily* (online), June 18, 2009, at <http://english.people.com.cn/90001/90776/90883/6681601.html> (accessed on March 27, 2014)

¹⁵ Pranab Dhal Samanta, “India-China face-off worsens over ADB loan for Arunachal”, *Indian Express*, May 15, 2009, at <http://archive.indianexpress.com/story-print/459910/> (accessed on March 27, 2014)

¹⁶ Wu Zhaoli, “Complex Issue, Hopeful Prospects”, *Beijing Review*, no.37, September 12, 2013, at http://www.bjreview.com.cn/world/txt/2013-09/10/content_567058.htm (accessed 27 March 2014).

investment in this sector".¹⁷ The concern on both sides is on how to facilitate flow of investment from China in the Indian market and vice-versa.¹⁸

The BRICS Development Bank, on which BRICS members have failed to build consensus so far despite several rounds of deliberations, is another issue that needs serious deliberation in the SED. The onus is on India and China primarily because these two are the largest economies in BRICS. Currently, there seems to be contention regarding the location of the bank's headquarters, type of projects that this bank will finance and its source of funding. BRICS Development Bank is an idea that is linked to North-South politics, whether it will act as a plausible alternative to the Bretton Woods institutions. China, it appears, wants to hog the scenario, to have headquarters of this bank in a Chinese city, probably Shanghai. China also has a disproportionate number of billionaires, prompting it to demand a big slice of the cake in the bank.¹⁹ India is somewhat cagey about this possible development.

Security and strategic issues need serious deliberation in SED too, especially because these issues involve economic and strategic nuances. Maritime security, China's recent "maritime Silk Road" proposal, security situation in Afghanistan, terrorism, and the geopolitical implications of the recent Ukraine crisis need serious discussion in SED. As regards China's invitation to others to join in the "maritime Silk Road" programme, before India decides to accept the offer, it is crucial to discuss in clear-cut terms Beijing's perspective on India's initiative for oil exploration in the South China Sea with the Southeast Asian countries, which China has so far opposed. SED must discuss and review the regional economic nuances that are attached to various issues that have arisen in the current international scenario that affect the region vitally. It also needs to discuss issues such as revitalizing the Russia-India-China (RIC) forum and the RCEP. China also needs to reconsider its current opposition to India's partaking in the ASEAN+6 mechanism when it comes to the issue of regional economic integration in East Asia. A greater level of dialogue in the SED on RCEP and its negotiation process will help them to proceed much faster in terms of a possible future free trade agreement (FTA) between themselves.

¹⁷ "Manmohan Singh's speech on India-China relations at the Central Party School, Beijing: October 24, 2013", *The Hindu*, October 24, 2013, at <http://www.thehindu.com/news/resources/manmohan-singhs-speech-on-indiachina-relations-at-the-central-party-school-beijing/article5268097.ece> (accessed on March 21, 2014)

¹⁸ "Member Planning Commission's Speech at 3rd SED", India-China Third Strategic Economic Dialogue, Comments of Mr. Saumitra Chaudhuri, Member, Planning Commission on Financial Issues, 18 March 2014, Beijing, 17-20 March 2014, at <http://www.indianembassy.org.cn/newsDetails.aspx?NewsId=474> (accessed on March 21, 2014)

¹⁹ Jagannath P. Panda, "BRICS Development Bank: Figuring Out the Durban Bid", *IDSA Comment*, March 8, 2013, at http://www.idsa.in/idsacomments/BRICSDDevelopmentBank_jppanda_080313 (accessed on March 27, 2014).

Chart-I



Source: United Nations Commodity Trade Statistics Database, comtrade.un.org

Bilateral Concerns

Addressing macroeconomic issues and forging a stronger understanding in regional and global outlook can be attended better if bilateral economic grievances can be addressed easily. Trade imbalance, which in the last few years has widened in favour of China (see Chart 1), is for India a disquieting issue. India has regularly sought to convince China particularly to open its domestic markets in areas like Information Technology (IT), pharmaceuticals and engineering products.²⁰ The Joint Economic Group (JEG) dialogue mechanism is supposed to address this issue and the SED is supposed to look after macro issues in India-China economic engagements. This, however, creates a doubtful atmosphere for the progress of the SED. It is necessary to discuss the trade imbalance issue in SED as most of the India-China economic dealings today carry both strategic and economic ingredients. The two countries have set a target of \$100 billion trade target by the year 2015, but their bilateral trade has declined in the last couple of years, from US\$74 billion in 2011 to \$66 billion. During the third SED, India also raised the issue of mutual investment flows to address to some extent the trade imbalance between the two countries.²¹

²⁰ Sandeep Diskhit, "Beijing to hold first ever India-China strategic economic dialogue", *The Hindu*, September 24, 2011.

²¹ *Opening Remarks by Shri Montek Singh Ahluwalia, Deputy Chairman, Planning Commission at 3rd SED*, March 18, 2014, n. 7.

Border trade is another matter that can be discussed in future India-China SED interactions. The two countries are linked in the BCIM economic corridor project. Enhancing trade, transit and investment linkages are important aspects of the BCIM agenda. *Xinhua* reported in December 2013 that there was a sharp rise in India-China border trade in Renqinggang, which is located in Southwest China's Tibet Autonomous Region (TAR), that the trade figures there reached 86.3 million Yuan (approximately \$14.3 million), a 23.3 per cent rise over the previous year.²² To what extent the declining value of the Indian Rupee has contributed to this rise in the border trade is not known. These questions need serious deliberations in the SED, as these issues have strategic and economic nuances that involve greater India-China sub-regional dealings and cross-border engagements.

Summing Up

The three rounds of SED have, no doubt, built a strong momentum in the India-China institutional engagement, but the challenge is how to upgrade the level of dialogue, bring maturity to the interaction and make it a distinct and regular affair without making it just another talk shop. China has a similar dialogue mechanism with the USA. Initially started as US-China Strategic Economic Dialogue (SED), now a special "strategic track" and "economic track" has been added to this and it is known as US-China Strategic and Economic Dialogue (SE&D).²³ The India-China SED has not really matured as a trusted bilateral mechanism to discuss the regional and global complexities of economic and strategic substance yet. Attempts need to be made to make it much more regular and systematic and to encompass issues for open discussion of not only India-China regional and global relations but also their foreign policy objectives.

China currently has strategic dialogue mechanisms with many countries and regions, such as with the African Union (AU), European Union (EU), and with ASEAN at the think-tanks level, but the US is the only other country with which China has a SED dialogue. New Delhi needs to make a special note of this seriousness on Beijing's part where China is concerned. There is no dearth of issues that the SED can address, but the success of the mechanism will depend upon how openly and candidly the two countries discuss them. The next SED round is supposed to be held in 2015 in India. New Delhi will by then have a new government in place. For India, the challenge is not only how to give new momentum to this mechanism but also how to persuade the Chinese to address the trade deficit issue.

²² Kong Defeng and Liang Jun, "China-India border trade booms", *People's Daily* (online), December 12, 2013, at <http://english.people.com.cn/business/8482387.html> (accessed on March 24, 2014)

²³ Shambaugh, "A Big Step Forward in U.S.-China Relations", n. 11.