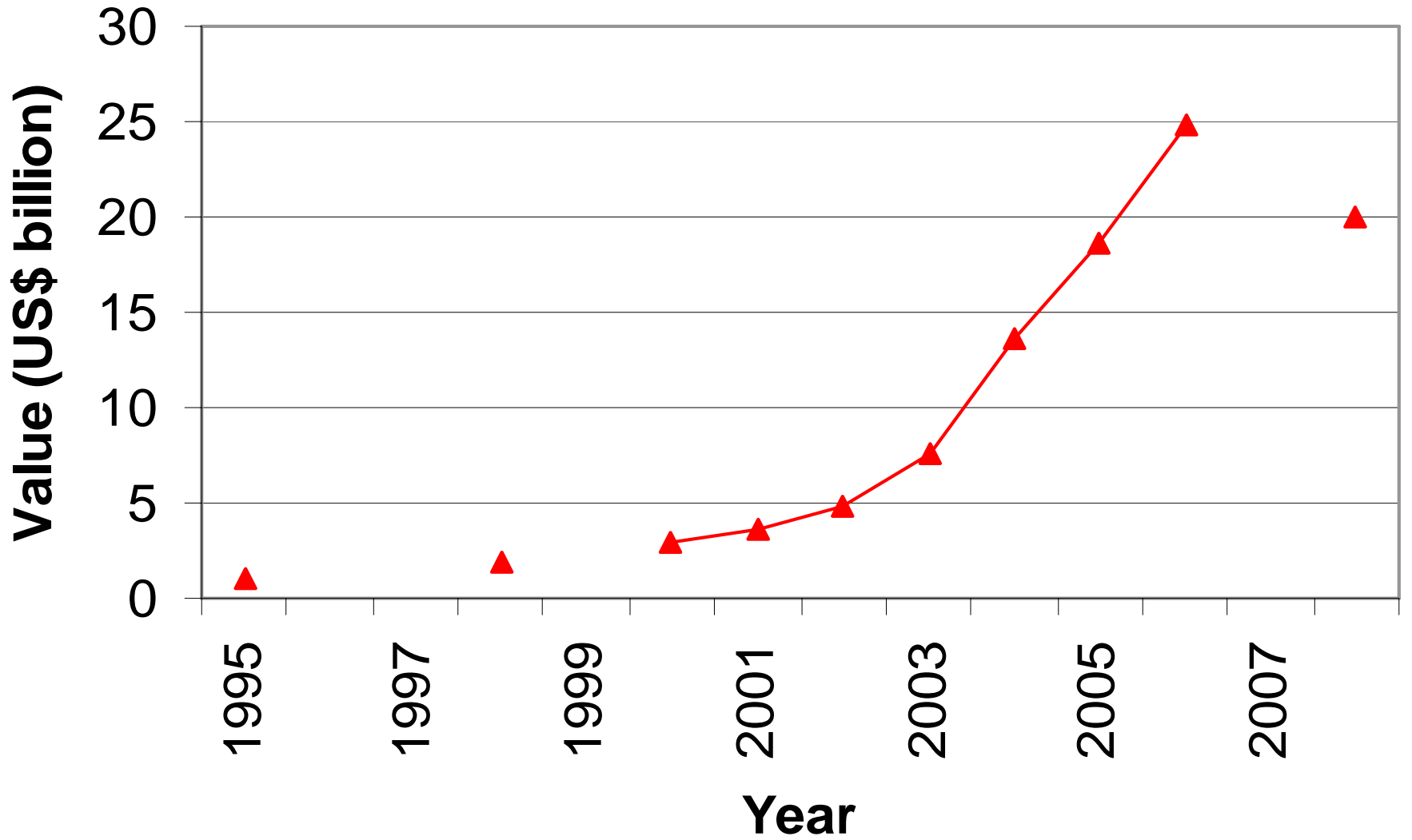




India-China Trade Relations

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China-India Trade





Summary of 2005 JSG Report

- Very high commodity concentration: top 10 products contribute > 80% of trade in both directions. India's exports mainly low value added (iron ore, iron & steel).
- Suggestions are mainly on
 - trade facilitation (customs procedures, inspection/certification for SPS and technical standards)
 - improving shipping and air transport links



Understated but Sensitive Issues

- Indian Anti-Dumping measures on imports from China and China's request for "market economy status"
- A bilateral China-India Free Trade Agreement



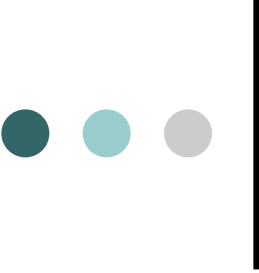
Anti-Dumping

- From 1995 to June 2006, 94/448 Indian anti-dumping initiations and 70/323 measures were against imports from China
- Only 4/126 Chinese initiations and 2/83 measures were against India
- China has requested India for “market economy status”
- JSG Report only calls for both sides to work together and promote dialogue.



Background on anti-dumping

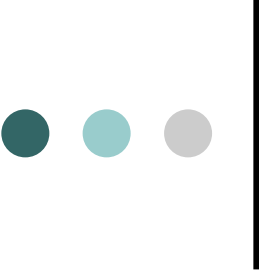
- GATT Article VI: “Dumping” is exporting at a price $<$ “normal value”.
- Normal value can be established as
 - price in exporter’s domestic market
 - price charged by exporter in a third country
 - exporter’s estimated costs, with allowance for “reasonable” profits.
- *To be based on data provided by exporters*

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- If a country can establish both “dumping” and “material injury” to its domestic industry, it can impose an anti-dumping duty up to the dumping margin (difference between export price and normal value)
 - GATT/WTO rules are very general and widely abused.



Anti-dumping on imports from China

- Section 15 of China's Protocol of Accession to the WTO allows other members to ignore Chinese prices and costs in making the price comparison, for 15 years.
- Justified by concerns that Chinese prices and costs were not determined by market forces.

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- Other countries often use prices of a comparable market economy, e.g. India, as a surrogate for Chinese costs
 - India's DGAD also does this, using cost data provided by petitioners themselves and not made public
 - This makes it easy to prove dumping and establish a high dumping margin



“Market Economy Conditions” (MEC)

- The Protocol allows Chinese prices or costs to be applied to producers under investigation who can prove that MEC prevail in their industry.
- India allows this for China and Russia, and their producers have successfully claimed MEC in some cases.
- But the procedure is very complicated.



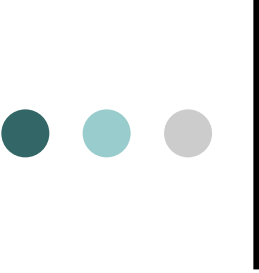
“Market Economy Status” (MES)

- China and Russia have been trying to get MES, which would allow all their producers to be treated under standard GATT/WTO rules, like those of other members.
- Russia has got MES from the EU and US.
- China has got it from 66 countries, including Australia, Brazil, Malaysia, New Zealand, Thailand.



My views on anti-dumping

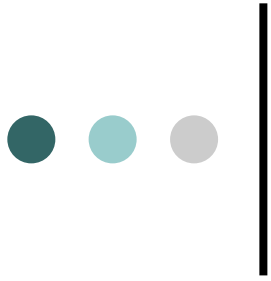
- Indian industries are concerned about Chinese industries getting cheap credit and land from government agencies.
- But there is no justification for using Indian costs as surrogate for Chinese costs of other inputs.

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- Most Indian producers receiving anti-dumping protection are relatively concentrated industries in the chemicals sector – reduces “effective protection” for user industries who may be smaller and more labour-intensive.
 - Even with MES, Chinese exporters will still have to provide data and respond to questions from investigators.
 - The real problem is with anti-dumping itself, not MES.



China-India Free Trade Agreement

- JSG Report does not go into detail.
- Governments agreed to set up a Joint Task Force to explore feasibility. It met only in March 2006.
- Both countries are also exploring FTAs with other partners, esp. ASEAN.

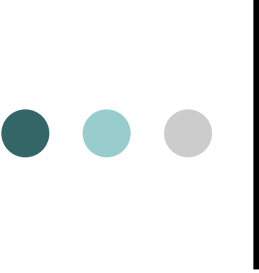


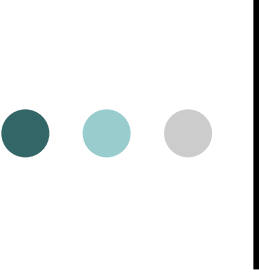
- `Complementarity' in India-China Trade:
 - India has advantage in services, China in manufacturing.
 - In the IT sector, India has an advantage in software, China in hardware.

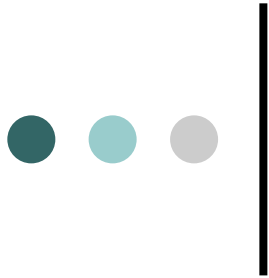


My views on the FTA ...

- Bilateral FTAs can result in welfare loss due to trade diversion. This may not be a serious problem as China is the lowest-cost supplier for a range of manufactured goods.
- FTAs require complicated and costly Rules of Origin → uncertainty, delays and corruption in customs administration.

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- India's industrial tariffs are higher, so India will have to make more concessions and give higher preference margins for Chinese exports of manufactured goods.
 - India will incur a higher sacrifice of tariff revenue : also China doesn't lose revenue on services imports

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- A CGE simulation for 2007-2025 in *ADB Asian Development Outlook 2006* compares the effects of a pan-Asian FTA to Chinese bilateral FTAs resulting in a “hub and spoke” arrangement with China as the hub.
 - China gains very little from Asian FTA, more from being the hub.
 - India gains from the Asian FTA but loses from being a spoke of the China hub.



- Employment in India's organized manufacturing sector has fallen after 1998; real wages have been stagnant since 1994.
- Flood of manufactured imports may cause social / political problems in India; may cause a backlash which will affect improvement of political ties.
- Will provoke more anti-dumping petitions.



Services

- Not much scope for China giving preferences to India's exports
 - for “Mode 1” services supplied across borders, WTO agreements on IT and e-commerce already establish a free trade regime – no scope for preferences
 - for Modes 3 & 4, market access is regulated more by work permits, FDI rules, recognition of professional qualifications/certification – not easy to give preferential treatment.



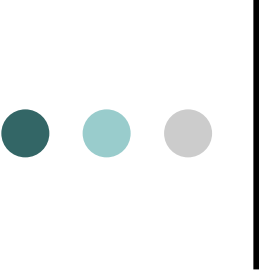
Other obstacles

- Chinese restrictions on Indian agricultural exports.
- Indian reservations on allowing Chinese FDI into sensitive infrastructure sectors like ports and telecom.
- Problems of rising mineral exports to China:
 - Scarcity for Indian user industries
 - Ecological damage
 - Displacement of population
 - Export duty recently imposed on iron ore.



Recommendations

- Bilateral “trade facilitation” measures recommended by JSG should be pursued – will also promote people-to-people contact
- Streamline anti-dumping procedures.
- *Regional* FTA involving other Asian countries would be less problematic
 - less scope for trade diversion
 - more openings for Indian exports
 - less complicated rules of origin

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- China and India should jointly improve their understanding of WTO issues, strengthen the G-20 to make it proactive and extend beyond agriculture.
 - They should try to learn from each other on how to cushion the social consequences of economic reforms.



THANK YOU!