

Does An FTA With CHINA Make Sense

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INDIA and China have moved from zero or negligible bilateral trade, a few years ago, to near \$14 billion in 2004. This rise has been rapid and the question, on everyone's mind, is where can this go? How far? How much? The vision should be \$100 billion bilateral trade with milestones of \$25 billion and \$50 billion every few years. These figures are achievable, going by the growing size of the two economies of China and India.

However, the base and range of trade is limited at present. The focus is on immediate trade needs and not on a plan and strategy. The two governments recognised this and set up a joint group to evolve a road map for bilateral trade. This group has just completed its work, thus setting a framework for the future. A roadmap has been outlined to take trade to steadily higher levels.

As the group's report goes into the process of implementation, it will be time to start preliminary consultations on working towards a feasibility study on a free trade area between China and India. This may not be to the liking of several corporates in India who are anxious about their competitive position. It reminds one of the early '90s when the liberalisation of trade and reduction of tariffs met with a similar response.

A decade later, in 2005, the country is hearing similar sounds. The conflict in noises is too apparent. On the one hand, Indian industry's global competitiveness is not in question. Achieved after several years of pain and restructuring, Indian manufacturing has come of age, is exporting and investing internationally. And, this, in spite of higher transaction costs and inferior infrastructure in India. But, as soon as there is a hint of talks about an FTA with China, the '90s syndrome of protest has surfaced.

Clearly, China is ahead in manufacturing and there could be cause for concern if the FTA was to come tomorrow morning or even 2-3 years from. But, with India's tariffs steadily declining, the peak rate will be at 5% in the next few years. Plus, agriculture and infrastructure reforms will add new depth to In-

dia's economy. Therefore, it is worthwhile to commission a feasibility study. If the feasibility study shows that the negatives outweigh the positives, the file can be closed for a while. If, however, the study shows that it could be a win-win for both China and India, then, the next steps could be taken.

The most important factor is that Indian enterprise, management, professionals and workers are the finest in the world and extraordinarily talented. They underestimate their own capability and this is fairly common to industry around the world and therefore the universal cries for protection as and when the pain of competition really hurts! In any case, industry's concerns must be respected but a preliminary study on an FTA will be very useful. It will put data on the table which is important to evolve future strategy. It will help evolve India's international trade and economic strategy especially in Asia and with China.

The vision of a single common market of 2.5 billion people with a bilateral trade of \$50 billion, and, later, \$100 billion is exciting and it is more than likely that China and India could stand shoulder to shoulder on fairly balanced terms when, several years from now, the FTA will begin to be implemented. The gains for both countries would be significantly higher exports and, with this, enhanced infrastructure and connectivity both in terms of technology and people. So, while an FTA has not become imperative, it is certainly worth discussing. In the process, the reforms required in India to hasten higher levels of competitiveness would materialise.

Because of the quality of Indian entrepreneurship there need to be no fear of China. Rapid dereservation of small industry, which is now happening in India, will enable Indian firms to regain the space in the marketplace for manpower-intensive, simple technology, mass production items which China has occupied thanks to India's own policies. The future can be very different with Indian companies operating effectively in this whole range of manufacturing sectors, not only in India but also in China.

A real gain from an FTA will be lower costs of products and services and competitiveness of industry in the long term, focusing on a massive twin market — of India and China.



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