

The India-China paradigm: Collaboration and competition

ASIAMONEY's inaugural India-China Forum, sponsored by ICICI Securities, brought together opinion leaders, decision-makers and investors from both countries to discuss how the world's two most dynamic economies can benefit and learn from each other as they steam ahead.

SPEAKERS

ELLIOT WILSON: ASSOCIATE EDITOR, ASIAMONEY

SHEKHAR GUPTA: EDITOR-IN CHIEF, FINANCIAL EXPRESS. CEO, INDIAN EXPRESS GROUP

RAYMOND HOOD: MANAGING DIRECTOR, ASIAN DIRECT CAPITAL

J.J. IRANI: DIRECTOR, TATA SONS

WINSTON MOK: CEO, INVENITE CAPITAL

MICHAEL NOCK: CHAIRMAN AND MANAGING DIRECTOR OF DORIC CAPITAL AND CORINTHIAN CAPITAL MANAGEMENT

SURESH PRABHU: MEMBER OF INDIA'S PARLIAMENT

ASIAMONEY: *What should China and India do to ensure they work together to improve their economies, rather than competing without regard for each other five or 10 years down the line?*

MICHAEL NOCK: Both economies have strengths and the way forward is to leverage each other's strengths rather than go head to head in industries. As the two economies embark on a very rapid growth rate, this is putting a huge strain on access to resources...one area with huge opportunities is in the cooperation and management of access to resources.

J.J. IRANI: It's fine talking about cooperation and competition but China and India [were] involved in armed conflicts with each other not so long ago, and so each side looks on the other with a great deal of suspicion.

If you go to Delhi and ask for licences to set up a Chinese business, even now there is a certain amount of reservation. To help break the barriers down we must identify each other's natural resources. Anything agreed to by treaty or bilateral agreements can be changed, but what cannot be changed are natural resources. With an understanding like this between the two countries we can build up a foundation of co-operation that will work in the future.

There are many demographic studies that show China will be an ageing population in 10 or 15 years, while India will remain a young population. India has the advantage of youth and technology on its side, and this will provide fuel for industries worldwide—in India, Europe, the US and even in China. But [besides] human resources we can provide resources for the steel industry—China doesn't have iron ore. We could have cooperation where we

share our iron and steel resources. China is the factory of the world, and India can't compete there.

Indians have a certain mindset about the Chinese that has been brought about over many years. We liberalized more than 15 years back while China did it 30 years back. But in India there is a worry about what China will be doing [in the future].

SURESH PRABHU: There's huge scope to collaborate. Fighting doesn't work. To have cooperation though, we must understand each other better. There are a lot of misgivings on both sides.

India and China are huge consumers of energy. One of the reasons crude oil is at US\$70 [per barrel] is because India and China are still consuming at that price. We should be developing alternative energy sources together, renewables. Worldwide there isn't enough investment in renewables. Research and development from two such big countries would be large enough to be commercially exploitable in other countries. India is a downstream country for water resources—we have floods in India but that water originates in China. I think we need to work together on that area.

It's also possible that India and China can together take part in projects worldwide. India is very strong in services, China in manufacturing. China has also more than double India's food production—but despite that China will be a net importer of food grains in a few years, and India can be a supplier of that grain on a long-term basis. To do all this we need to clear away the misunderstandings and misconceptions. China should not think India is confined to south-east Asia.

WINSTON MOK: Resources and energy will be a key area of both issue and opportunity for India and China. If both countries see energy as key, then competing is in neither country's interests. Renewable energy is a key area of potential collaboration—coal-fuel extraction, wind, solar, nuclear energy. Both countries don't have a lot of options other than to use nuclear energy in a modest way.

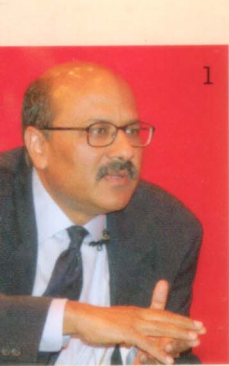
It is not the right way to look at the two economies as competing. Companies compete but can also work together to become stronger. It's not a matter of which one is stronger, but how we can deliver better lifestyles to our consumers, better health and education to our populace, and better jobs for our people. There is room for two large economies in the future.

I see both countries in terms of cooperation and partnership, where we can work together to benefit not just each other but the world, too.

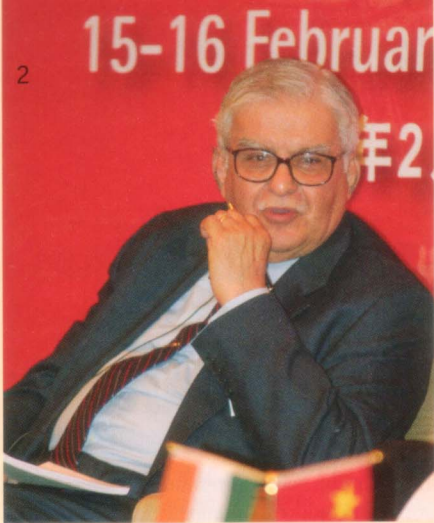
RAYMOND HOOD: If you look at Asian history in the past few hundred years, and even longer, there was always a lot of economic collaboration between the two. What's striking now is that the level of

There's huge scope to collaborate. Fighting doesn't work. To have cooperation though, we must understand each other better. There are a lot of misgivings on both sides.

SURESH PRABHU, MEMBER OF INDIA'S PARLIAMENT



1



2



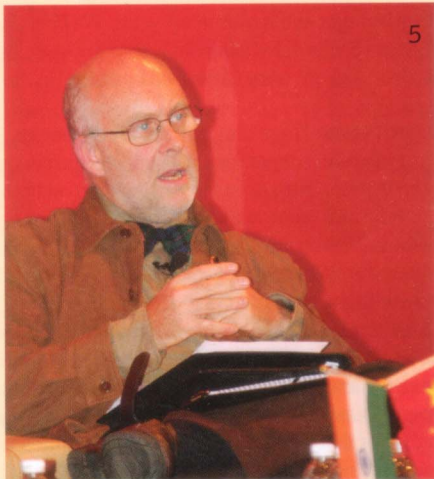
3



4



6



5



1 SHEKHAR GUPTA
INDIAN EXPRESS GROUP

2 JJ LRNTI
TATA SONS

3 SURESH PRABHU
FORMER UNION MINISTER
OF POWER

4 WINSTON MOK
CEO, INVENITE CAPITAL

5 MICHAEL NOCK
CHAIRMAN, DORIC
CAPITAL

6 RAYMOND HOOD
MD, ASIAN DIRECT
CAPITAL MANAGEMENT

trade, political and cultural engagement between these two huge countries is relatively low—that's an anomaly that's going to change in coming years. How it changes is unclear. The second perspective is from our business—[we are] a private equity company. If I look at where companies trade between China and India, it's quite an interesting pattern. The level of trade and activity is relatively low but there are many complementary areas. The Indian economy is becoming one of the most important global players in terms of tradeable services, particularly in IT but also in terms of other services; China is becoming the global powerhouse in terms of relatively low capital and labour-intensive industry.

Though the two economies are huge and competing, the most important aspect [is that they are] complementary in terms of trade and industry.

The evolution of both and the interplay between them is fascinating. If you take the sheer scale...the development of a bipolar Asia with these two economies will have a huge impact on [the region] and the rest of the world. We're now seeing the growth and regeneration of some of the traditional cross-land trade patterns and trade flows between India and China and intermediary countries. We're seeing the old patterns of trade flows reassert themselves. That will be a huge driver of global economic growth over the next two decades.

AM: *There's so much trade potential between the two sides, yet can there be enough goodwill to ensure the continued growth of the current annual trade figure of US\$20 billion?*

SHEKHAR GUPTA: There's a lot of goodwill and admiration for China. I was five years old when the 1962 war took place.

The Indian economy is becoming one of the most important global players in terms of tradeable services, China is becoming the global powerhouse in terms of relatively low capital and labour-intensive industry.

RAYMOND HOOD, MANAGING DIRECTOR, ASIAN DIRECT CAPITAL

Indians don't harbour a feeling of blood feud with China the way we do with Pakistan. The president of China is coming to India in May, which shows there is warmth now between the countries.

China and India's businesses have been looking more to the west but that anomaly is now being rectified. Travel and communication is increasing. It's fashionable to say competition, competition, competition. But realistically we are not good enough to compete with China right now—we have a long way to go in most fields.

There's a belief in Indian politics that Americans want India to become a balancing act against China. Indians don't take that seriously. We have to do a lot more to come to the high table.

AM: *But, fundamentally, how can the two parties increase trade between them?*

WM: Bilateral trade between India and China is not the most important issue. The growth of both has been driven largely by trade with the west. Even though we export a lot of products to the west, a lot of the value and profits are owned by western companies. We do the sweat, they enjoy the profits. We need to control more of the value chain—intellectual property, branding, marketing, sales. The key is how the two can work together to build Asian-global companies that own brands, intellectual property, and sell to the west rather than let the west extract a lot of profit from us.

For China, India has so far been a limited consumer market. The trade barriers in India, such as steel import barriers, cause problems. For India, the natural export of IT services is again to the west. But Chinese companies are becoming more sophisticated and are outsourcing more services. The Indian consumer market is also developing. Why not consider a free trade agreement (FTA) between the two that can trap the benefits?

SP: India now is adding 100,000 people to the middle-class every day. Markets in these countries are going to be very large and, eventually, some sort of FTA is going to happen.

WM: But when are you going to cut barriers on imported goods? The Chinese face import tariffs in India—when are they going to be cut?

SG: We're duty-bound to cut tariffs but China is reducing tariffs

much faster. We're reducing them too. Tariffs are going down.

JJI: In 1991 peak tariffs were 300%, and this year they should come down to 10%. It's not just for China but for all our trading partners. Also in India we are now living in the coalition system—there needs to be a wide-ranging agreement between partners. We sometimes take one step forward and three steps sideways, as is seen with our airports recently. In China, once the government decides to do something they go ahead and do it.

AM: *So it's not business that gets in the way of trade between the two, it's politics?*

MN: Democracy is essential in any developing country, but I'm also mindful that China's success in recent years has been laying the foundations of very successful infrastructure development. One of the problems in India is getting the goods moving around the country, through the ports and out again. I've watched as Bangalore has grown. The traffic outside our offices there doesn't move now. China has moved to best practices by taking the best ways India does things, but at the same time India has to harness and refocus this wonderful energy in the democratic process and find a way to build roads and ports.

SP: China defied the logic that large countries can't grow fast.

MN: Having opened offices in both countries, it took me six months to open one in India and it took one day in Hong Kong and something between both in Shanghai. The rules simply need to be streamlined in India. ▲