China’s Transitions and India’s Options

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“China is a sleeping giant. Let her sleep, for when she wakes she will move the world.”

— Napoléon Bonaparte

"India conquered and dominated China culturally for 20 centuries without ever having to send a single soldier across her border."

— Hu Shih, former Ambassador of China to USA
It’s a Correction Not A Crisis

• Chinese policy makers mishandling lent it crisis like feel
• But China has deep reserves to handle it
• But even China cannot control the market
The Sudden Devaluation of the Yuan
Its Been a Bumpy Landing

• Whether it becomes a Hard Landing Remains to Be Seen?
• Global reaction especially amongst commodity producers has been sharp
• Brazil just got downgraded to Junk status
China’s Growth and Imports Are Falling Sharply
China exports

Twelve-month percentage changes

Source: Thomson Reuters Datastream / Fathom Consulting
China Follows Japan and South Korea ??

The graph shows the relationship between real GDP growth and real GDP per capita for Japan, Korea, and China during various decades. The trend indicates that as real GDP per capita increases, real GDP growth tends to decrease. The data points for China, Japan, and Korea during the 1970s, 1960s, and 1980s are highlighted, with a particular emphasis on 2014 data points for each country.
But China’s Transition To Industrial Country Status Looks Complicated

• It has both deflation and high debt
• It continues to Over-Invest
• It needs serious institutional reforms not more controls
The Rapid and worrisome rise of China’s Debt
China Struggle’s With Rebalancing

Data source: EIU CountryData.
Notes: Data for 2014 are estimates. Investment includes gross fixed investment and stockbuilding.
India Affected More Than Expected

- India’s Stock Market Has Taken a Huge Beating
- The Rupee has depreciated against the Yuan
- But Real Effects Have been small
Rupee Has Depreciated Against The Yuan

- Yuan
China India Growing Trade Imbalance

Source: Anant Vijay Kala, Raymond Zhong and Niharika Mandhana, WSJ, May 13, 2015
FDI Into India by China and Others

India's Foreign Fans
A sample of FDI into India over the last 14 years in billions of dollars.

Source: Kala, Zhong and Mandhana (2015)
India Follows China 13 Years Later ??

Source : Kala, Zhong and Mandhana (2015)
China’s New Silk Strategy: Threat or Opportunity?
The New Silk Road
The String of Pearls
The Silk and Spice Routes

The Silk Road was the means by which trade moved overland between the Middle East and China. The trade began during the 100s BC (and probably earlier). Ships also sailed directly from the Arabian Peninsula across the Indian Ocean thanks to the pattern of the annual “trade winds”. Overland and sea commerce grew after the Islamic conquest of the Middle East and Central Asia from the 600s AD. Individuals of diverse backgrounds and religions took part in the trade between the Middle East and China. These included Jews, Christians, and Muslims from the Middle East who traded in China and India.

Ceramics are the most tangible products of the trade to the Middle East, since textiles, spices, and other luxury items rarely survive archaeologically. Other goods and technologies that came from China include papermaking, gunpowder, compasses, and silk. Religious ideas also traveled. Islam, Christianity, and Judaism came to China from the Middle East via these routes.

Indian Ocean trade routes connected the Red Sea and the Persian Gulf in the Middle East with India and China.
India And China : Competitive and Cooperative

• India and China Have a Competitive Relationship in South Asia and Africa
• India has not Yet Signed On to the New Silk Road Strategy
• But India Has joined the New BRICS Bank (first President) and the AIIB (second largest shareholder)
China’s Rising Investment in South Asia

CHINA’S AND INDIA’S FDI STOCK IN SOUTH ASIAN COUNTRIES, 2012 ($US MILLIONS)

Afghanistan: 483
Bangladesh: 114
Bhutan*: 117
Maldives: 44
Nepal: 401
Pakistan: 2,234
Sri Lanka: 522

*India did not report its FDI stock in Bhutan so figures provided are reported by Bhutan

Source: UNCTAD Bilateral FDI Statistics, as reported by China and India
Credit: Ashlyn Anderson, Julia Ro
## Remittances in South Asia From China and India

<table>
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<tr>
<th>Remittance-Receiving Country</th>
<th>Afghanistan</th>
<th>Bangladesh</th>
<th>Bhutan</th>
<th>India</th>
<th>Maldives</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
<th>Total</th>
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<tr>
<td>From India</td>
<td>1</td>
<td>4,163</td>
<td>1</td>
<td>-</td>
<td>0</td>
<td>832</td>
<td>2,061</td>
<td>488</td>
<td>7,546</td>
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<tr>
<td>From China</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>57</td>
<td>-</td>
<td>4</td>
<td>16</td>
<td>20</td>
<td>107</td>
</tr>
</tbody>
</table>

Credit: Ashlyn Anderson, Julia Ro
Figure 1. Trade and FDI in Africa: China and Others

The scramble in Africa

Goods trade with Africa, 2013, $bn
- Rest of world 453.8
- China* 156.4
- United States 72.1
- France 61.6
- India 57.0
- Spain 48.1
- Italy 40.9
- Germany 40.4
- Britain 34.4

Total: $1.02trn

Foreign direct investment in Africa, 2012, $bn
- Rest of world 38.1
- China* 2.5
- Britain 7.5
- United States 3.7
- Italy 3.6
- France 2.1
- India 1.8

Total: $59.3bn

*Including Macau and Hong Kong

Sources: UNCTAD; IMF

Source: The Economist
Expect More Turbulence

- China’s Transition Will Create More Turbulence
- China Could Also Become More Aggressive
- China Must Cooperate With India to Win Asian Century
Currently, China is going through the Major-period of Saturn and the Sub-period of Rahu. And the Sub-sub period of Mercury will be under operation from 9th August, 2015 to 4th January, 2016. After that Ketu’s Sub-sub period will be under operation from 4th January, 2016 till 5th March, 2016. This will remain a crucial period, and there may be some fluctuations as well as drastic changes. There may remain an uneven pattern in the country’s economy, and there may be frequent downs. Overall, a negative trend may be seen.

Actually, the problems of China would have begun from 13th July, 2014 onwards, when Rahu had entered Virgo and started affecting the Natal Mercury (Business, Finance, Currency) and Sun (Government) in a negative way, because of which the Government had to incorporate some drastic changes to the currency valuation. This negativity may still continue to create problems for China till 13th March, 2017.