

**Report
of the
India-China
Joint Study Group
on
Comprehensive Trade
and Economic
Cooperation**

INDEX

Chapter No.	Contents	Page No.
Ch 1	The Context of China-India Economic Cooperation	1
	Introduction	2
	Reforms and Economic development in China	2
	Reforms and Economic development in India	6
	An Overview of China-India Economic Relations	8
	India-China Economic Relations: A Vision for the Future	10
	Annex: Institutional Framework for India-China Economic Relations	13
Ch 2	India-China Trade in Goods	17
	Recent Trends in Trade	18
	Potential for Expansion in Trade	20
	Improving Trade Environment	23
	Constraints	23
	Recommendations	28
Ch 3	India-China Trade in Services	33
	Importance of Services	34
	Current Status of India-China Bilateral Trade in Services	34
	Potential and Priority Fields of Cooperation	35
	Cross-Sectoral Barriers to Trade in Services	45
	Suggestions on Strengthening Cooperation in Priority Fields	45
Ch 4	Investments	47
	Policies on Inward FDI	48
	Policies on Outward Investment	50
	Bilateral Investment between China and India	51
	Areas of Future Investment Cooperation	52
	Enhancing India-China Investment Cooperation	53
Ch 5	India-China Economic Cooperation	55
	Scope of India-China Economic Cooperation	56
	Strengthening Cooperation between Government Agencies	56
	Enhancing Cooperation in Agriculture & Rural Development	59
	Cooperation in Electrical and Electronic Sector	61
	Project Contracting	62
	Cooperation in Energy Resources	63
	Management of Economy	65
Ch 6	China-India Regional Trading Arrangement	69
Ch 7	Recommendation for Development of India-China Trade and Economic Cooperation (Summary of Recommendations)	73
	Summary of Recommendations from Chapter 2	74
	Summary of Recommendations from Chapter 3	77
	Summary of Recommendations from Chapter 4	82
	Summary of Recommendations from Chapter 5	83
	JEG to Decide on the Implementation of above Recommendations	92

II

	India-China Regional Trading Arrangement	93
Appendix to Ch 2		94
Appendix to Ch 3		117

Chapter 1

The Context of China-India Economic Cooperation

Introduction

- 1.1. India and China are the two largest countries in the world in terms of population; they are also the fastest growing economies in the world. India and China together are home to the world's largest pools of skilled human resources, and there is a general consensus that these two countries will continue to be the engines of global economic growth in the 21st century. Both China and India have also consciously deepened their economic relations within Asia as is clear from their dialogue partnership with ASEAN and signing of framework agreements for closer economic cooperation with it in 2002 and 2003 respectively.
- 1.2. Bilateral trade and investment between the two countries have grown rapidly over the past few years indicating the presence of a vast potential for further growth. Substantial complementarities characterize the economic structures of China and India. China is emerging as a significant link in the manufacturing chain of the world while India's potential for the knowledge-based services and manufacturing is being noticed. These complementary strengths of the two economies can be further exploited for mutual benefit. Their geographical proximity, similar cultural values, and large size of their economies can facilitate exploitation of these synergies. They can also pool their resources for improving their international competitiveness, and can fruitfully share their development experiences and cooperate in the critical area of energy security. India-China economic cooperation has the potential to benefit nearly two fifths of humanity with spill over effects on the rest of the world. This cooperation could also be instrumental in promoting broader regional economic integration in Asia. Finally, the importance of this cooperation for achieving their developmental objectives in WTO and other international negotiations cannot be overemphasized. India and China can be a strong voice to make the Doha Round a truly development round. Against that backdrop, this Chapter reviews the respective economic policy frameworks, in two countries and their recent economic performance and outlook to provide the background for subsequent chapters.

Reforms and the Global Economic Integration in China and India

Reforms and Economic Development in China

- 1.3. China initiated economic reforms including the focus on outward-orientation in 1978. The establishment of the socialist market economy was reiterated as the goal of reform in the early 1990s.
- 1.4. As a part of the reforms, the nature of intervention has shifted progressively from microeconomic regulation to macroeconomic

management through fiscal and monetary policies. Market forces are assigned an increasing role in allocating resources and in determination of prices of most commodities and services. The ownership structure of Chinese enterprises has been diversified from state and state-holding enterprises to cover joint stock enterprises, foreign investment enterprises and private enterprises. New laws and regulations governing foreign economic relations has been established including the Foreign Trade Law, the Law on Foreign Investment Enterprises, and the Foreign Exchange Management Regulations, etc.

- 1.5. Having recently acceded to WTO, and as per its WTO commitments, China has reduced its tariff rates considerably and bound in different lines of merchandise trade and eliminated most non-tariff measures. From January 1st 2004 the average tariff rates have come down to 10.4 per cent, with the average rate for industrial products being 9.5 per cent and for agricultural products at 15.6 per cent respectively. All non-tariff measures are expected to be eliminated by 2005. Export subsidies for farm products have been phased out, and the domestic support is at lower level than for other developing countries. In the area of trade in services, China has fulfilled its WTO accession commitments to a more liberal regime and has opened certain sectors (such as insurance and tourism) for foreign investors or service providers.
- 1.6. China has encouraged foreign direct investment. Bilateral investment protection agreements have been signed with 89 countries. Introduction of foreign capital, technology, talents and managerial expertise has not only helped upgrading of China's industrial structure and development of modern service industry, but also greatly improved economic efficiency and enhanced the international competitiveness of its products.
- 1.7. Since 1st July 1996, foreign enterprises are allowed to settle their foreign exchange transactions at designated banks. Furthermore, with the implementation of the new regulations on foreign exchange management, Chinese currency became convertible in the current account. Therefore, trade related foreign exchange receipts and disbursements are no longer subject to restrictions, the limit on remittances of profit earnings abroad was eliminated, and restriction on the redemption of foreign exchange by citizens for private purpose have been relaxed, though capital account transactions and remittances face some restrictions. Further reforms are underway to improve the determination of RMB exchange rate while maintaining a basic stability. More relaxation of restrictions on capital transactions will also be implemented for achieving the final aim of capital account convertibility in a selective and step-by-step manner to minimize the risks.

Macroeconomic Performance and Future Prospects

- 1.8. The Chinese economy, since implementing reforms in the late 1970s has made remarkable progress. The GDP growth rate has averaged 9.4 per cent over the last 20 years. China now has the distinction of recording the largest GDP in the developing world with a population of 1.3 billion, and is also the fastest growing economy in the world. In 2003, GDP reached US\$ 1410 billion, the seventh largest in the world. Per capita GDP has risen from US\$ 400 in the early 1990s to more than US\$ 1000 in 2003. During 1993 to 2003, foreign trade grew at an annual rate of 15.8 per cent increasing the trade to GDP ratio from 32.6 per cent to 60 per cent and the proportion in global merchandise trade from 2.7 per cent to 5.6 per cent. China's trade in services amounted to US\$ 102 billion in 2003, representing an 18.27 per cent annual growth.
- 1.9. China has consistently been the largest recipient of FDI among developing countries for the past 11 years. Cumulative realized FDI inflows added up to US\$ 501.5 billion by the end of 2003. The industrial added-value realized by foreign enterprises accounted for 27 per cent of national industrial added-value in 2003 and FDI accounted for about 8 per cent of the total domestic fixed assets investments in the year or 3.8 per cent of the GDP. Reforms have helped China in improving its balance of payment position. Foreign exchange reserves have risen to US\$ 403 billion by the end of 2003. Strict management of foreign debt has kept foreign debt to GDP ratio at a moderate level of 13.7 per cent in 2003.
- 1.10. The Chinese government has set for itself a target of quadrupling the GDP to US\$ 4000 billion, and over US\$ 3000 in terms of GDP per capita by 2020. It hopes to build an industrialized economy that is also open with a more vibrant socialist market economic system. In order to improve the sustainability of development, the Chinese Government is emphasizing the need for a balance between urban and rural development, between development of different regions, between economic and social development, between man and nature, and between domestic and external economies. With growing industrialization, the share of industry has gone up to 51 per cent of the Chinese GDP with the primary sector accounting for 15.4 per cent and services accounting for 33.5 per cent. The predominant position of industry is expected to continue while the proportion of services is expected to rise at the cost of the agriculture sector. The recent years have seen a rapid growth of automobile and real estate industries in China which in turn boosted the growth of industries such as the steel, cement, building materials and petrochemical products and accelerated the pace of the industrialization process.
- 1.11. The share of urban population is likely to increase from 39 per cent in 2002 to 55-57 percent by 2020. As a result, there will be a larger number

of cities on top of expansion of the existing ones. This is expected to boost investments in public utilities and infrastructure development including electric power, gas, water supply, railways, roads, ports, airports, urban roads, sewage disposal as well as waste disposal. The Chinese Government encourages the entry of foreign enterprises in infrastructure and public utilities giving them similar treatment in terms of investment, financing, taxation, use of land and foreign trade.

Approach to Multilateral Trading System and Regional Economic Integration

- 1.12. As a member of the WTO, China is actively participating in multilateral trade negotiations, and is committed to the establishment of a just and fair international economic order. It is aiming to strengthen coordination and cooperation with other countries for a successful completion of the Doha Round. It also stresses the importance of meaningful and effective provisions for special and differential treatment of developing members.
- 1.13. China feels that regional and sub-regional economic cooperation is not only effective in meeting the challenges posed by globalization but also complements the multilateral trade system in promote world trade. To this end, Article Five of the recently amended Foreign Trade Law of the People's Republic of China includes a clause stating that, in accordance with the principle of equality and reciprocity, the People's Republic of China shall boost and develop trade relationships with the other countries and regions, conclude or participate in regional trade and economic pacts such as customs union agreements and FTA agreements, and join regional economic organizations. The Chinese Government is attempting to expand bilateral trade and economic relationships, as well as to promote bilateral regional economic cooperation through different channels and in various forms.
- 1.14. The Closer Economic Partnership Arrangements (CEPA) signed respectively between the Chinese Mainland with Hong Kong SAR and Macao SAR became effective from January 1st 2004. Besides this, the Government has explicitly committed itself to an FTA with ASEAN including an early harvest program, participating actively in the ASEAN+3 cooperative arrangement and promoting economic cooperation between China, Japan and Republic of Korea; and striving to initiate FTA negotiations with South Africa Custom Union (SACU), Chile and Gulf Cooperation Council, as well as carrying out joint studies with Australia and New Zealand on the signing of an FTA agreement; besides continuing to strengthen economic cooperation with the members of the Shanghai Cooperation Organization, as well as actively boosting and participating in cooperation in the Asia-Pacific Economic Cooperation (APEC) and the Euro-Asian Conference.

Reforms and Economic Development in India

- 1.15. India's development strategy adopted since the early 1950s was based initially on import substitution in the framework of a mixed economy. This had helped establishing a diversified industrial structure and human capital base. However, by the late 1970s there was a growing consensus to switch economic policy away from controls and administered prices. The initial attempts at liberalization in the 1980s, combined expansionary fiscal policies with selective reduction in tariff barriers, and a managed floating of the Indian rupee. Since 1991 India has embarked on a far-reaching economic reform program covering trade, investment, monetary and exchange rate policies. Highlights of the economic reforms include, a major liberalization of trade policy covering progressive reduction in the customs tariff rates from peak rates of 150 per cent in 1991/92 to 25 per cent in 2003/04. In January 2004 these were further brought down to 20 per cent for non-agricultural goods. The import licensing system has been dismantled and quantitative restrictions on imports have been phased out two years ahead of the WTO schedule. India has bound over 3298 of the 4701 (i.e. 70 per cent) of her tariff lines (at 6 digit level HS classification). Of these 99 per cent of the bound lines have been bound at rates 40 per cent or lower. The applied rates are much lower than the bound rates for most of the products. The New Industrial Policy of 1991 dismantled the industrial approval or licensing system except when it is required for environmental or security reasons. New sectors such as mining, banking, insurance, telecommunications, construction and management of ports, roads and highways, airlines and defence equipment have been opened to private investment including foreign investment. With a progressive liberalization of FDI policy, foreign ownership of up to 100 per cent is permitted in most of the manufacturing sectors. A system of automatic approval of FDI proposals fulfilling the conditions laid down has been put into effect. The policy governing outward direct investment (ODI) has also been liberalized during the 1990s. The Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries Abroad as amended in January 2004 now provide for the automatic approval of ODI proposals up to 100 per cent of the net worth of the investing entity.
- 1.16. The Indian rupee had already been floating in a basket of currencies. The partial convertibility of rupee in the trade account was announced in the 1992-93 Budget and was subsequently broadened to full convertibility in the current account by August 1994. Progressive liberalization is also being pursued in the capital account now. The Capital Issues Control Act was repealed and the Securities and Exchange Board of India (SEBI) was set up as a watchdog for regulating the functioning of the capital market. SEBI has focused on regulatory reform of the capital market as well as on market modernization. Online trading and dematerialized trading have been introduced. Companies have been allowed to buy back their own

shares subject to the regulations laid down by SEBI. In the financial sector, the government announced guidelines in September 1992 for investments by foreign institutional investors (FIIs) in the Indian capital market. FIIs were now allowed to invest in all types of securities traded on the primary and secondary market with full repatriation benefits and without restrictions on either volume of trading or lock-in-period. In January 1993, a package of financial sector reforms was announced that included permission to new private sector banks including foreign joint ventures. The government has also established a policy regime for functioning of private non-banking finance companies (NBFCs) and agencies for rating their credit worthiness.

Trends in Macroeconomic Performance and Challenges Ahead

- 1.17. During the past two decades there has been a major structural change in the economy with the share of primary sector declining by almost 14 per cent from 39 per cent in 1980, and that of the service sector increasing by almost 13 per cent to reach nearly 50 per cent in 2002. Along with structural change, the Indian economy has sustained an average GDP growth of about 6 per cent over the past two decades. With a GDP growth of 8.2 per cent in 2003-04, India has emerged as one of the top three fastest growing economies in the world. Rapid growth in exports of goods has helped in increasing India's share of world trade by nearly 50 per cent during the 1990s to reach a level of 0.8 per cent at present. The trade to GDP ratio has nearly doubled from about 15 per cent during the mid-1980s to nearly 30 per cent by 2001. With the healthy growth of exports of goods and services and increasing capital inflows, India has accumulated foreign exchange reserves of about \$ 120 billion. Even with underestimation on account of different procedures followed, FDI inflows have recorded more than 15 fold increase. India's stock market has been vibrant and its currency has appreciated in the last one year by about 8 per cent in relation to the US dollar. With a large pool of trained human resources, the country is emerging as a base for knowledge-based services such as IT software development, research, design and development (RD&D), business process outsourcing. Software exports now account for nearly 20 per cent of its total exports. Like China, India also has displayed a remarkable resilience to withstand external shocks of the East Asian crisis of 1997. Overall, India is recognized to have the inherent strength and the potential to continue to sustain high economic growth and emerge as a leading economy in the world along with China. In a recent study, Goldman Sachs has projected that China and India will emerge among the top three economies in the world by 2041. They find that 'India has the potential to show the fastest growth over the next 30 and 50 years.'
- 1.18. The Tenth Five Year Plan (2002-07) has set the target of 8 per cent annual growth rate. This target is marginally lower than what was

accomplished in 2003/04, but considerably higher than the 5-6 per cent achieved during the last five years. India's vision for 2020 seeks to quadruple real per capita income to enable India to join the ranks of upper middle-income countries, with poverty eliminated. India will emerge as the fourth largest economy in the world. The Vision places heavy emphasis on human resource development and job creation to ensure employment for all through small and medium enterprises (SMEs), commercial agriculture, agro-industries, IT and IT-enabled services, among other sectors. Moreover, it is envisaged that by 2020 India would evolve into an information society and knowledge economy inter alia by doubling the share of expenditure on education in GDP, increasing the national expenditure on R&D activity, and investments in communication infrastructure.

India's Approach towards Regional Economic Cooperation

- 1.19. India has demonstrated a strong commitment to multilateralism in her trade policy while taking a keen interest in regional economic cooperation mostly in Asia. India is a founding member of the Bangkok Agreement in 1975, one of the first preferential trade arrangements in Asia. India has been a member of the South Asian Association for Regional Cooperation (SAARC) that has adopted a Framework Agreement on South Asian Free Trade Agreement (SAFTA) in January 2004. India is an active participant of BIMST-EC, combining seven South and Southeast Asian nations that have also adopted a Framework Agreement for a Free Trade Arrangement among its members. India has had free trade and transit treaties with Nepal and Bhutan, its landlocked immediate neighbors. India had signed a bilateral free trade agreement with Sri Lanka in 1998 that is being upgraded into a Comprehensive Economic Partnership Agreement. Since 1991, India has pursued a policy of 'Look East' in her foreign economic relations. Subsequent to becoming a dialogue partner of ASEAN at the Second ASEAN-India Summit held in Bali in October 2003, a Framework Agreement on Comprehensive Economic Cooperation was signed. The Agreement contemplates an FTA in goods, services and investments and an early harvest programme. It was proposed that an FTA with 5 ASEAN countries could be put in operation by 2011 and with the CLMV countries and the Philippines by 2016. In addition, India is negotiating a Comprehensive Economic Cooperation Agreement with Singapore and has signed a framework bilateral Free Trade Agreement with Thailand. Negotiations involving preferential or free trade arrangements are on with GCC, Mercosur, South Africa.

An Overview of China-India Economic Relations

- 1.20. India and China resumed trade officially in 1978. Both the countries signed a Trade Agreement (Most Favoured Nation Agreement) in 1984. Since 1988 when it was decided to extend the India-China relationship at various

levels, an elaborate framework for promoting trade and economic relations has evolved over time (as summarized in Annex). India-China economic relations have expanded considerably in the recent years as described below.

Merchandize Trade

- 1.21. India-China bilateral trade has grown rapidly in the last decade from US\$ 339 million in 1992 to US\$ 8 billion in 2003. The average annual growth of trade during the 1995-2003 period at 26.4 per cent has been higher than the average growth rate of trade for either China or India during the same period. In 2004, India became the 11th largest trade partner of China and the largest in South Asia. Bilateral trade between India and China reached a total of US\$ 13.6 billion*, representing an increase of 79.1% per cent over the corresponding period last year. Despite the rapid growth, the share of India in China's imports is just 1.0 per cent (in 2003) and of China in India's imports is under 5 per cent. This suggests an enormous potential for trade expansion.
- 1.22. In terms of product composition, India-China trade is still highly concentrated in a narrow range. The top 15 products constitute 89 per cent of the total Indian exports to China and 80 per cent of imports from India. India's exports to China are dominated by primary and semi-finished steel, iron ore, plastic and linoleum products and other ores and minerals that constituted almost 60 per cent of total exports in 2002-2003. There has been a sudden surge in the exports of primary and semi-finished steel. Indian exports appear to be dominated by minerals and raw materials or low value addition products feeding the rising demand for these products in China. India's imports from China are dominated by electronic goods, organic coke and briquettes and medicinal and pharmaceutical products which constitute almost 50 per cent of the total imports in 2002-2003. These appear to be more diversified and are dominated by high value-added manufactured goods such as electronic goods which now account for almost 28 per cent of the total trade volume. Imports of electronic goods, professional goods and optical items and electrical machinery have tended to grow at a higher rate. There is obviously need for broad-basing the Sino-Indian trade in favour of more value-added items especially for India's exports.

Trade in Services

- 1.23. Trade in services has emerged as a major growth area in international trade in the 1990s. There is a growing trade in services between India and China representing their complementary strengths in the sector. In 2003, the total trade in services between the two countries amounted to US\$ 75 million representing a growth rate of 125.5 per cent, higher than the

* According to Chinese Customs Statistics

growth rate of trade in services of either China or India. According to the data released by the Ministry of Commerce of China, Chinese companies had been awarded projects worth US\$ 1 billion in India's infrastructure sector till end 2002. The areas of these contracts are engineering and construction of power projects, highways, and telecom infrastructure. Indian companies in IT services and IT training have started business in China. A number of Indian banks are setting up offices in China. Similarly there are two-way links in transport services in civil aviation and shipping. Chinese and Indian companies are also cooperating in oil and gas exploration in third countries.

Bilateral Investments

- 1.24. Two way investment links between China and India are deepening. According to the Government of India statistics, during the period January 1991 to August 2003, India has approved FDI of US\$ 231 million from China. China ranks 24th in the list of countries in terms of cumulative FDI, approved by the Government of India by 2003. The approved investments have been slow in materializing as actual inflow which has been only about US\$ 0.6 million, according to Government of India sources, and US\$ 21 million according to the Chinese Ministry of Commerce statistics (up to 2003). A total of 97 Chinese proposals for foreign collaborations have been approved, mainly in the telecom, metallurgical, transportation, electrical equipment and financial sectors. Available indications suggest that the official figures might underestimate the actual investment as some Chinese companies tend to invest before their investment is actually recorded by the government statistics.
- 1.25. Since 2000, the annual investments by Indian companies in China have been above US\$ 10 million, reaching as high as US\$ 31 million in 2002. According to the Chinese Ministry of Commerce, the total Indian investment projects in China reached 101 by the end of 2003, with the total contracted investments amounting to US\$ 235 million and actual investment amounting to US\$ 79 million. In 2003, about 30 new projects involving an investment of about US\$ 16 million were also initiated. Indian investments in China have been made in pharmaceuticals, automobile components, software, graphite electrodes, machine tool building, etc.

India-China Economic Relations: A Vision for the Future

- 1.26. This brief overview of India-China trade and investment linkages shows that the magnitude of trade has expanded rapidly over the past few years. This indicates the presence of complementarities and suggests the potential of an even faster growth. At the present rates of growth, bilateral trade is likely to cross the US\$ 10 billion target in 2004/05 set by Premier Zhu Rongji. Hence, it would not be unrealistic to set a target of US\$ 30 billion by 2010. However, the India-China trade is still concentrated in a

few products especially the low value added raw materials and minerals dominating India's exports. The challenge is to make trade more broad-based and diversified in favour of manufactured goods rather than raw materials while sustaining a healthy expansion of trade. For this, a great deal of attention needs to be paid to trade facilitation besides addressing the issues of relevant tariff and non-tariff barriers. It is believed that trade facilitation itself could lead to further strengthening of the India-China economic linkages by bringing down the present level of high transaction costs. The steps that could be considered include streamlining customs procedures and moving towards a more comprehensive electronic data interface in customs administration and information exchange, having a bilateral pre-shipment inspection agreement, mutual recognition agreements on standards, and harmonization of conformity assessment procedures among others. Trade facilitation could also cover cooperation to facilitate trade financing and cooperation between export-import banks of the two countries.

- 1.27. A large potential exists for trade in services and investment. Barriers to trade in services need to be addressed systematically to exploit the potential of trade in services for mutual benefit. Such potential appears to exist in areas such as IT and IT enabled services, biotechnology, education, financial sector, education, health care, tourism, among other sectors. The potential is yet to be fully exploited. Investments can be undertaken by Indian enterprises in China, not only for supplying the Chinese domestic market but also for exports in the third countries. Similarly Chinese companies can explore investment opportunities in India for domestic market and for exports. Bilateral investment flows could be facilitated by bilateral investment protection and promotion agreement, among other policies. In addition, an organized institutional promotion by business chambers and governmental agencies may be fruitful. Economic relations could be further strengthened with improved transport linkages and connectivity. While some progress has been made on air connectivity between India and China, the frequency of direct air links is still low.
- 1.28. Economic cooperation between India and China also has to look beyond just promoting trade and investment. It could cover much broader areas including: to strengthen cooperation and information exchange between Government agencies and related institutions; exchange development experiences and promote technology and industrial cooperation in the fields, such as agriculture and rural development, electrical and electronics sector, project contracting. Given the fact that both China and India are highly dependent on imports of petroleum and gas, mutual cooperation in energy security is also of strategic importance; exchange experiences in the management of economy, such as city management, poverty relief and social security, development of SMEs, disaster management, water resource management.

- 1.29. The cooperation between China and India will lay foundations for the two countries to establish a Regional Trading Arrangement (RTA). It is expected that India-China RTA will be conducive to bringing the potential of economic cooperation into full play. Furthermore, with mutual cooperation and coordination of their positions in negotiations in WTO, they make contributions to building a more pro-development multilateral trade and financial architecture. China-India cooperation has the potential to benefit one third of humanity and also promote a broader regional economic integration in Asia.
- 1.30. Subsequent chapters of this Report will address, in more details the potential to expand economic cooperation in various sectors, as also indicate the constraints and policy measures that can be taken to promote cooperation.

Annex

Institutional Framework for India-China Economic Relations

Apart from visits by individual companies and delegations, India and China have put in place a business friendly institutional framework for interaction between government, industry and business of both countries.

- Joint Economic Group: The Joint Group on Economic Relations and Trade, Science and Technology (referred to in short as the Joint Economic Group or JEG) is co-chaired by the Indian Minister for Commerce and Industry, and the Chinese Minister for Foreign Trade and Economic Co-operation. The JEG promotes economic, trade, scientific and technological relations between India and China. The Sixth Session of the JEG was held at Beijing on 21-22 February 2000.
- Joint Business Council: The India-China Joint Business Council (JBC) meets once a year with the Federation of Indian Chambers of Commerce and Industry (FICCI) on the Indian side and the China Council for the Promotion of International Trade (CCPIT) on the Chinese side being the nodal organizations. During the JBC meeting at Beijing on 22 February 2000, the two sides signed an Agreement on Arbitration for the resolution of commercial disputes. The last JBC was held in Mumbai on 16 January 2002. FICCI and CCPIT signed a Cooperation Agreement. As a part of this initiative, conferences have been organized to promote cooperation by the industrial and commercial enterprises of the two countries in trade and economic fields as information technology, electronics, agriculture, pharmaceuticals, chemical industries and WTO.
- India-China Joint Working Group on Trade: One of the important decisions taken during the visit of Mr. An Min, Vice-Minister, Chinese Ministry of Commerce, to India in 2003 was the setting up of a Joint Working Group on Trade. The JWG would meet at Director General/Joint Secretary level. The first meeting of the JWG was subsequently held in end-February 2003 in Beijing.
- Joint Working Group on Coal: The India-China Joint Working Group on Coal guides cooperation between the two countries in this sphere. The 9th meeting of the JWG on Coal was held on 9-10 February, 2004 in New Delhi. Issues and bilateral projects in the field of coal were discussed between the two sides.
- Joint Working Group on Steel: India-China MOU on Steel was signed in February 2000, coinciding with the 6th Session of the Joint Economic Group (JEG) between the two countries. The first meeting between Indian Steel Alliance (ISA - representing Indian steel industry) and China Iron and Steel Association (CISA – representing China steel industry) was held in October 2003. The main focus of the Chinese delegation was to ensure long-term supply of iron ore from India and to address the issue of high levels of Indian steel exports to China.
- Civil Aviation: Following a General Sales Agreement between Air India and the CAAC in 1985, an Air Services Agreement on direct air services between India and China was signed during the visit to China of Indian Prime Minister

Rajiv Gandhi on December 22, 1988. In May 1997 an MOU was signed, embodying the issues of beyond points and intermediate point traffic rights, thus paving the way for direct air services between the two countries. Direct air services started in March 2002. The current scheduled frequency of flights between India and China is four flights a week, two flights by China Eastern Airlines and two by Air India. The two sides have agreed to increase the frequency to seven flights per week on each side, though these are yet to be made operational. As per the current flight schedules, China Eastern flies between Beijing and Delhi (via Shanghai) and Air India flies between Shanghai and Delhi (via Bangkok). Technical level discussions were held in Beijing from January 25-26, 2005 in which the two sides discussed further measures to expand air services on a reciprocal basis. Enhancement of capacity entitlements, increase in points of call, increase in the number of intermediary and beyond points, cargo traffic rights, amendments to the ASA, multiple designation, code sharing etc. were amongst the issues discussed.

- Shipping Agreement: The two countries have signed a Maritime Transport Agreement, which has come into effect from December 2, 1997 after both sides completed their respective ratification procedures. Direct shipping links have started recently. The INDFEX (India-Far East Express) Consortium consisting of the Shipping Corporation of India Ltd (SCI), Mumbai, Dongnama Shipping Company Ltd., Seoul, Kawasaki Kisen Kaisha, Ltd. ("K" Line), Tokyo, Pacific International Line (PTE) Ltd. (PIL), Singapore have already commissioned INDFEX 1 and INDFEX 2 direct mainline (large vessels plying long distances) container services linking India and China. In June 2001 the consortium had started the INDFEX 1 Service, the first direct shipping link between the West Coast of India, Nhava Sheva (Jawaharlal Nehru Port Trust) to China and Korea. In June 2002, the consortium launched INDFEX 2 Service, a fixed day, weekly service linking India East Coast with Northern PRC ports. This new service will be the first direct service between the East Coast of India, Chennai to Northern PRC ports. The intended rotation is Dalian - Xingang - Yantai - Qingdao - Hong Kong (Midstream) - Singapore - Port Kelang (North and West Port) - Chennai - Port Kelang (North & West Port) - Singapore - Pasir Gudang - Hong Kong (Midstream) – Dalian.
- MOU on Banking Relations: During the visit of Indian Vice President to China in October 1994, an MOU on Banking was signed between the two countries. The State Bank of India (SBI) has opened a representative office at Shanghai since August 15, 1997. A few other Indian banks like Bank of India (2003), ICICI Bank (2003), Punjab National Bank (June 2004) and Bank of Baroda (June 2004) have opened Representative Office in Shenzhen, Shanghai and Guangzhou respectively. In September 2003, SBI filed preliminary application with China Banking Regulatory Commission seeking approval for up-gradation. The approval has since been received in November 2004 and SBI hopes to operationalize the branch by May 2005.
- Cooperation between EXIM Banks: During the visit of Indian Prime Minister to China in June 2003, Chinese government had offered a US\$ 500 million LOC to India. In February 2004, a two-member team from Exim Bank of India visited China for the first round of discussions between the two Exim Banks.

Exim India suggested that reciprocal LOC be extended between the two institutions on commercial terms, without seeking government guarantees from the two governments. They also suggested that credit could be US\$ 100 million either way to begin with, and could be increased subsequently, based on utilization.

- Tourism: An MOU on “the Implementation Plan for Organized Group Travel by Chinese Citizens to India” was signed between Department of Tourism and China National Tourism Administration (CNTA) in December 2003 during the visit of Mr. He Guangwei, Chairman, China National Tourism Administration (CNTA). According to the MOU, the Chinese side shall designate the travel agencies in China, which have been authorized by CNTA to organize the outbound travel of Chinese citizens to India. CNTA issued a notification regarding India’s Approved Destination Status from April 1, 2003 to the 528 approved outbound tour operators in China. Both the Ministries of Tourism have exchanged the list of authorized outbound tour operators. The framework for cooperation in tourism has been put in place by both countries.
- Avoidance of Double Taxation Agreement: India and China signed an Agreement on the Avoidance of Double Taxation in New Delhi in July 1994 during the visit to India of Chinese Vice Premier and Foreign Minister Qian Qichen.
- Bilateral Investment Protection and Promotion Agreement: Negotiations on a Bilateral Investment Protection and Promotion Agreement (BIPA) have been going on since November 1996. Negotiations are currently on to sort out the differences between the two sides to conclude the Agreement.

- Recent Trade Facilitation and Promotion Measures

Border Trade

Border trade with China resumed following the signing of an MOU during the visit of Chinese Premier Li Peng in December 1991. At present, border trade with Tibet in China is conducted through Lipulekh Pass in Uttaranchal and Shipkila Pass in Himachal Pradesh. During the visit of the Indian Prime Minister to China in 2003, the two sides agreed to open a third route, namely, Nathula for conducting border trade, which is not yet operational. India-China border trade is conducted both on fully convertible currency as well as the barter system basis. Due to the exigencies of high-altitude weather conditions, trade is carried out mainly between June and October. Items traded are mainly commodities required to meet the necessities of day-to-day life, and volumes are relatively low.

Exchange of Trade Preferences under Bangkok Agreement

Accession of China to the Bangkok Agreement provided an avenue for India and China to create a preferential trading regime. In 2003, China and India reached an agreement on exchanging trade preferences under the Bangkok Agreement. Under the Agreement, China offered tariff preferences on 217 items including foods, chemical products, drugs, textile products and machinery products. India offered tariff concessions on 188 items including primarily chemical, paper, steel, rubber, electric machinery, railway products and toys.

- India-China Cooperation on WTO: India and China had signed a bilateral accession agreement in February 2000 in the context of China's accession to WTO. The agreement included list of concessions on goods granted by China to India. The MoU signed including Chinese commitments on Tariff Rate Quotas for Agricultural Products; Phyto-sanitary measures; pharmaceuticals; banking and Insurance. The Declaration on Principles for Relations and Comprehensive Cooperation between India and China signed during Prime Minister's visit to China in June 2003 mentions "The two sides agreed to enhance cooperation at the World Trade Organization, which is not only to mutual benefit but also in the broader interest of developing countries. The two sides will hold dialogues on a regular basis in this regard." India and China have been cooperating closely bilaterally as well as within the Group of 20 at the Cancun Ministerial Conference and in subsequent negotiations including joint submissions to protect developing country interests in the ongoing Doha Round negotiations.
- Cooperation in Science and Technology: Building on earlier exchanges in the area of S&T, an MoU for Cooperation in the field of Ocean Science and Technology and another one for Cooperation between Department of Science and Technology of India and the National Science Foundation of China were signed during the visit of Indian Prime Minister to China in June 2003. An MoU for Enhanced Cooperation in the field of Renewable Energy was also signed at the same time.

Chapter 2

India-China Trade in Good

Recent trends in Trade

Growth in Volume of Trade

- 2.1 Trade has been in favor of China between 1998-99 to 2003-2004. In 2003-2004 India had a trade deficit of over US\$ 1 billion with China. Trade between India and China has witnessed a transformation in recent years, both, in terms of volume and percentage growth. In 2003-2004 total bilateral trade increased by over 45 per cent. According to Chinese statistics, India had a trade surplus of US\$ 0.91 billion with China in 2003.

Table 2.1. Trends in India-China Bilateral Trade

		(inUS\$ billion)					
		1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
India@	Export	0.4	0.5	0.8	1.0	2.0	3.0
	Import	1.1	1.3	1.5	2.0	2.8	4.0
	Total Trade	1.5	1.8	2.3	3.0	4.8	7.0
	Trade Balance	-0.669	-0.744	-0.663	-1.084	-0.816	-1.09
China#	Export	1.0	1.2	1.6	2.0	2.7	3.3
	Import	0.9	0.8	1.4	1.7	2.3	4.3
	Total Trade	1.9	2.0	3.0	3.7	5.0	7.6
	Trade Balance	0.11	0.34	0.21	0.2	0.4	-0.91

Source: @: Department Of Commerce, Government of India

#Chinese Ministry of Commerce. Trade values for China are for respective calendar years.

Changing Composition of the Basket of Goods Traded

- 2.2 India's export basket, traditionally dominated by primary and resource based products is now showing signs of diversification. Exports of auto components, pharmaceuticals and machinery items have been increasing over the last few years. The product group - machinery and instruments has in fact, registered a growth of over 100 per cent between 2002-03 and 2003-2004. Chinese exports to India, on the other hand are fairly diversified and include resource based, manufactured items, as also low and medium technology products.

Major Exports from India to China

- 2.3 Iron ore and primary and semi finished iron and steel, machinery and instruments, plastic and linoleum products, processed minerals and cotton yarn have registered growth between 2002-2003 and 2003- 2004. Iron ore, machinery and instruments, petroleum products, non-ferrous metals,

oil meals and iron and steel bar/ore have registered a growth of over 100 per cent in this period. The share of primary and semi finished iron and steel, processed minerals and cotton yarn has however declined in total exports from India to China. Iron ore and iron and steel accounted for a major share (about 47%) of the total exports. Exports of other ores and minerals, marine products, inorganic/organic/agro chemicals registered a decline, both, in terms of percentage growth and as share of total exports from India to China in this period. (Refer Appendix -Table 2A.1) According to the Chinese statistics, mineral ores have always enjoyed a predominant status in India's exports to China. The percentage of ores has however, reduced from 38.4% in 1995 to 31.5% in 2003. The percentage of two primary products of cotton, peltry and leather has also decreased by large margin. In the same period, the percentage of manufacturing products has considerably increased. The percentage of iron & steel rose by large margin from 4.4% to 25.5%, plastics and plastic products from 4.7% to 7.7%, and machinery equipments begin to rank among the top ten products in terms of total export volume recently. The percentage of organic and inorganic chemical products has remained around 10% in total. (Refer Appendix - Table 2A.2)

Major Exports from China to India

- 2.4 Electronic goods and organic chemicals constitute a major proportion (about 46%) of China's exports to India. India's top ten imports from China in 2003- 2004 have registered growth over the previous year. Items such as silk yarn and fabrics, machinery except elec. and electronic, electronic goods, inorganic chemicals have registered an increase in growth by over 50 per cent with silk yarn and fabrics having registered the maximum growth in this period. (Refer Appendix - Table 2A.3)
- 2.5 As per the Chinese data, compared with the commodity structure of China's exports to India in 1995, electric machinery, electronic & audio-video equipment has registered a sharp increase from 6% to 20% and, this has become the largest export category from China to India. The percentages of textiles, chemical fibers, optical photographing and medical equipment as well as iron & steel products have also increased considerably, ranking among the top ten products in terms of export volume recently. The percentages of mineral fuels and silk have fallen considerably from 14.1% and 12.8% to 7.1% and 6.8% respectively. (Refer Appendix - Table 2A.4)

Potential for Expansion in Trade

Aggregate Volumes

- 2.6 The high growth (average 50% per annum) in bilateral trade between India and China in the last two years illustrates the potential for still higher trade. Other factors that are suggestive of this potential include the low share of each in their total trade and the high economic growth rates.

Low Percentage Shares in Trade Flows

- 2.7 Share of bilateral trade in total trade of India and China respectively is small. Trade between India and China accounted for 5 per cent of India's total trade in 2003-2004. In the same year, India's exports to China were US\$ 3 billion, while imports from China were US\$ 4 billion. However, exports to China account for only about 5 per cent of India's total exports and less than 1 per cent of China's total imports while Chinese exports account for 5 per cent of India's total imports and less than one percent of China's total export volume.
- 2.8 The fact that bilateral trade between India and China is increasing and trade shares are rather small clearly implies that there is a huge potential for enhancement of bilateral trade between the two countries. This is further reinforced by the increasing trend in total external trade for both the countries in recent years. China's total trade aggregated to US\$ 851.21 billion at the end of 2003, representing an increase of 37.1 per cent over 2002. In the same period exports registered an increase of 34.6 per cent and imports increased by 39.9 per cent. Between 2002-2003 and 2003-2004, India registered a growth of 22.3 per cent in total trade. In this period imports grew by 25.8 per cent and exports by 18.2 per cent. In the last two years with industrial recovery in process and existence of current account surplus, Indian total imports have been growing fast (21.2 per cent) indicating a potential for higher total import growth.

High Economic Growth

- 2.9 The momentum for increased bilateral trade is further reinforced by a high and sustained economic growth that is invariably accompanied by a higher and more broad-based propensity for consumption. India and China have revealed significant economic dynamism in the 1990s. The average GDP growth of China between 1990 and 2003 was as high as 9.3%, and the annual GDP growth rate of India was 6.2% between 1994 and 2002. In the

foreseeable future, the Indian and Chinese economy are expected to maintain the rapid pace of development, and the growth of domestic demands will undoubtedly spur the development of bilateral trade. Also, with sustained high economic growth, as the number of consuming households and consequently the demand for consumer goods constantly increases in India, there is an increasing potential for export of Chinese goods in areas where they appear to be particularly competitive like durable consumer goods, electronic components, plastics etc.

Estimated Potential

- 2.10 The natural links between India and China and their geographical proximity open vast opportunities for bilateral trade. The economic dynamism displayed by India and China in the last decade also contributes to increased trade possibilities. India and China are among the fastest growing economies of the world and the high rate of economic growth has been accompanied by an increasing share of trade in GDP in both the countries. Trade possibilities are further enhanced by access to an enlarged market owing to common membership of the Bangkok Agreement. The Bangkok Agreement is the largest PTA in terms of market potential. The size of the market and proximity of the two economies are thus indicative of a huge potential for trade between India and China. A tripling of the current levels of bilateral trade over the next few years is therefore a realistic target.

Key Sectors

- 2.11 To triple the trade between the two countries on a consistent and sustained basis, it is essential for India and China to diversify their export baskets. The sectors identified below have the potential for achieving both these objectives.

Key Sectors with Potential for Expansion of Exports from India to China

- 2.12 Using the index of revealed comparative advantage, commodities where India has a comparative advantage in the world market have been identified. List of commodities, which are already imported by China from other developing countries, is known. Based on this, commodity categories of potential export from India to China have been identified. These include agriculture and allied products - edible fruits, nuts etc, oilseed, animal and vegetable fats and oils, marine products; material based manufactures like –metal and metal articles thereof (e.g. iron and steel and articles thereof), cotton, manmade staple fibres and filaments; chemicals and plastics- organic and inorganic chemicals; and machinery and equipment, software etc. Indian exporters could target China with niche products such as fruits, “processed fruit” products, dairy, including

processed dairy products, vegetables and seafood. The pharmaceuticals sector also holds great potential for expansion of exports to China. Leather exports and exports of colored precious and semi-precious jewellery, stone like marble, granite, slate etc and tyre products are other areas that have potential for exports to China. A detailed list of potential exports from India to China at the six-digit HS code levels is given in Appendix -Table 2A.5.

- 2.13 The list of potential exports is indicative of static comparative advantage that India maintains vis-a-vis the Chinese market. An element of dynamics in comparative advantage is already evident from the observed changes in the export basket from India to China. The share of technology and skill intensive products like auto components in total exports from India to China is increasing. This diversification of our exports can further accelerate the momentum that India China trade has come to acquire in the last few years. Removal of impediments will thus go a long way in achieving the goal of enhanced bilateral trade between India and China.
- 2.14 A time bound plan can be drawn up for furthering India's exports in these categories.

Sectors of Potential Exports from China to India

- 2.15 According to China's export competitive index against India, China enjoys comparative advantages in such manufactured products as miscellaneous products, glass and porcelain products, and electric machinery and audio-video equipment, the export volume of which to India are relatively high. These are also China's most competitive products in the global market. (Refer Appendix -Table 2A.6)

Intra Industry Niches for Trade and Specialization

- 2.16 India and China enjoy a surplus of low cost labor. Exports of labor-intensive products from both countries are growing rapidly and the two countries are bound to compete with each other in such products in global markets. However, while China has comparative advantage in labor-intensive mass-produced goods, India's competitiveness lies in its ability to produce differentiated niche products like handicrafts, handmade carpets etc. Intra industry trade between the two economies is thus possible.
- 2.17 Also, the rapid pace of economic globalization and consequent development of international investment and trade has extended production chains beyond national boundaries. So, even though both have comparative advantage in similar sectors, such as chemicals, processed metals and alloys, machinery and equipment and textiles, within each sector they have comparative advantage in different sub-sectors and

products. There is, thus, a possibility of developing intra-industry trade between the two economies. India and China can use their respective comparative advantages and build on different aspects of the value chain in similar products. Sectors like machinery and equipment offer enormous scope for intra industry trade in this respect. In the process a new relationship of division of labor and vertical specialization between the two countries' enterprises can be established. For instance, competition between India and China in textile exports has pushed Chinese enterprises to the manufacturing and export of garments, importing textile materials from India. The two countries can thus convert competition into new opportunities for cooperation through intra-industrial trade.

- 2.18 It is also true that, countries with similar economic structures and factor endowments can have large- scale trade with each other. Similar countries in terms of per capita income have intensive horizontal intra industry bilateral trade. It is a well-known fact that almost 60 per cent of US and EU trade is intra industry trade. The growing levels of per capita incomes of India and China thus gives us a reason to expect the extent of intra industry trade to grow between India and China. Both economies have grown very rapidly for over a decade. Increasing GDP and the accompanying increase in per capita incomes in both the countries is bound to increase the demand for variety and consequently production of differentiated goods.

Bilateral Cooperation for Exports to Third Country Markets

- 2.19 Even for those products where both the countries are in a competitive relationship (e.g. chemicals), bilateral trade and exports to third country markets will be conducive to the upgrading of domestic industrial structures in both India and China.

Improving Trade Environment

Constraints

- 2.20 The two sides appraised each other of the problems conveyed to them by their respective industries/exporters. This indicated the need for the two sides to address such concerns for the expansion of trade. The following subsections discuss the problems arising from customs procedures and implementation of standards and certification practices. Removal of such procedural and operational problems will go a long way in achieving the trade potential identified in the previous section.

Customs Procedures

Valuation

- 2.21 Even after the issuance of valuation regulations in accordance with the WTO Customs Valuation Agreement, many customs officials continue to use minimum or reference price rather than the actual transaction price for valuation of goods. This makes the customs valuation system unpredictable and uncertain. As a result imports are adversely affected.
- 2.22 The same product may be subject to case-by-case determination of customs value depending on the port of entry. In addition, the valuation procedure followed by officials at different levels of government (national and sub-national) is not uniform. This process of differential valuation introduces an element of flexibility in the system. The decision regarding the duty on the products thus becomes subject to negotiations between traders and customs officials. This often leads to proliferation of middle-men and indirect costs and/or time delays.

Imports for Exporters

- 2.23 Clear guidelines for penalty in case cargo from Bonded Warehouse is not evacuated even after clearance from customs, are not available. Further, the penalty for physical cargo remaining in Bonded Warehouse after 90 days of landing date varies across ports. Non-availability of clear and uniform guidelines regarding penalties makes the levy subject to negotiations.
- 2.24 At some ports, customs officials insist on amendment of the entire set of documents if there is over-landing or short-landing of break bulk cargo (loose cargo- in cartons). At other ports there is no such requirement of document amendment. The variation in the system adversely affects exporter's confidence.
- 2.25 Re-exporters are allowed to import raw material only through a specified port. If they operate through other ports, they have to follow extremely difficult procedures to avail duty free clearance of cargo. This problem is further accentuated by the limited transport links between India and China, which do not allow free choice of ports for landing.
- 2.26 Some positive steps in the sphere of customs clearance and paperless trading have been taken by India and China to solve some of the problems relating to customs procedures.

Standards, Certification and Regulatory Practices

General Issues

- 2.27 Standards and inspection rules as applied to imported goods reportedly differ from those applied to domestic goods. This differential application of rules and regulations leads to a less favorable environment for trade.
- 2.28 Rules and regulations pertaining to standards and certification are frequently changed. Details of these changes are however not easily available in a published form in English language. This prevents sufficient flow of information and leads to confusion and an uncertain trade environment.
- 2.29 The implementation of standards and certification regulations varies across different levels of government. There is also a limited degree of understanding and co-ordination between the national and sub-national levels of government. Such a situation creates difficulties for the exporters.
- 2.30 While historically the standards in the two countries are different, they need to be harmonized to improve bilateral trade. For this, the participation of Indian and Chinese firms, registered in China and India respectively, in the consultative process will be conducive.

Exemptions

- 2.31 In some cases like import of replacement parts or imports of parts for assembly and re-export, companies can seek an exemption from certification requirements. However, the exemption procedures are burdensome and costly as the application is to be submitted in person and requires the knowledge of the local language. Small and medium-sized companies without a presence in the country may therefore find it difficult to apply for exemptions. Very often the use of middlemen and agents in these cases further escalates costs and affects transparency.

Certification requirements for consumer durables

- 2.32 Compulsory certification measures can be a major NTB for accessing each other's market. Certification remains a difficult, time-consuming and costly process for certain commodities that are of potential interest to both India and China. In many cases, foreign companies' products can only be tested at certain laboratories, and results from other competent authorities are unacceptable. The certification process in many cases involves on-site inspection of manufacturing facilities outside the country, the cost of which is borne by producers.

- 2.33 Time involved in and costs of compulsory certification measures are further escalated, as foreign manufacturers' self-certification of conformance to standards is not acceptable for certain products. Products are required to be tested in designated laboratories in the country. Also, officials want to inspect and certify manufacturing facilities before products can be certified for import into the country, with annual follow-up inspections. These inspections are time-consuming and costly for producers and therefore discourage trade.

Drugs and pharmaceuticals

- 2.34 The registration fee is very high and it takes a very long time to complete the registration process. These difficulties of the registration process discourage potential exporters.

Sanitary and Phytosanitary Measures (SPS)

- 2.35 Officials at the sub national level of government often impose new health and safety measures on exporters, leading to concerns about coordination, consistency and transparency in SPS related measures.
- 2.36 When new certification is introduced, exporters face a problem due to non-availability of details and limited access to information.
- 2.37 The certification requirements for some products exceed what is necessary (as defined by international standards) to protect consumer health and are therefore difficult to meet. Sanitary standards for seeds are particularly rigid. In 2003, SPS barriers continued to block imports of several products such as fruits and vegetables and processed food products containing certain food additives.
- 2.38 In the import of seafood products, while, the measures should be applied to the extent necessary to protect human, animal life or health, these should not discriminate between India and China relative to other similarly placed countries.

Arbitration for Trade Disputes

- 2.39 When trade contracts are subject to repeated reopening and demands for re-negotiation, it creates problems for smooth flow of trade. This is particularly so if the international legal system of arbitration for trade disputes is not recognized.

Quantitative Restrictions

- 2.40 Quantitative Restrictions like the continuation of imposition of import quotas and license management in certain categories of foodstuffs and export of certain commodities restrict bilateral trade.

“Multilateral” Issues subject to “Bilateral Agreements”

Tariff Regime

- 2.41 Collection of duties at customs includes protective tariffs which are subject to WTO/GATT discipline and equivalents of domestic indirect taxes such as VAT and central excise (called additional duty or CVD). The average GATT bound tariff level of India is much higher than that for China. However, the applied tariff rates in India are significantly lower than the bound rates. In case of agricultural goods the applied rate is almost 68% lower than the bound rate. For China the applied rates are close to the final bound rates and as of 2002, exceed the final bound rates in all categories of goods. Therefore the gap between the applied tariff levels in India and China is much lower than the gap between bound rates.

Table 2.2. Simple Average Tariff Rates

	<i>China</i>		<i>India*</i>	
	Final bound	Applied 2002	Final bound	Applied 2002
All goods	10	12.4	49.8	29
Agricultural goods (AOA)	15.8	19.2	114.5	36.9
Non-agricultural goods	9.1	11.3	34.3	27.7

Source: World Trade Organization website

*As goods produced domestically are often charged higher state excise and sales tax than imported products, the effective protective duty may be lower.

- 2.42 The latest position of applied tariffs is as follows. From January 1 2004, China has reduced the average level of import duties to 10.4%, of which the average tariff level for industrial products is 9.5% and the average tariff level for agricultural products is 15.6%. From February 2004, India has reduced the peak (applied) tariff rate for all minerals and manufactures to 20% (with the exception of automobiles). Because of livelihood concerns of a large section of population dependent on agriculture, tariff rates in agriculture are more variable. They range from 0-100% but are clustered around 30%. For social/ religious reasons, special rates are applicable to alcohol products.
- 2.43 In 2003, India and China reached a bilateral agreement on the mutual application of the Bangkok Agreement, agreeing to provide each other with more preferential customs tariff rate treatments than even for the Most Favored Nations. In accordance with the arrangements laid out in the agreement, China would offer India a List of Tariff Reduction for 217 items on the basis of the tariff rate for Most Favored Nations in 2003, with an average preferential margin of 13.5%. Besides, China also pledged to maintain such a preferential margin in each following year, with the items covering such broad categories as foods, chemical products, drugs, textile

products and machinery products. India would also apply a List of Tariff Reductions for 188 items as pledged in the Bangkok Agreement to imported products from China, including primarily such broad categories as aquatic products, chemical products, paper products, iron & steel products, rubber products, electric machinery products, railway products and toys.

Trade Remedies: Anti-dumping

- 2.44 The following table shows the number of anti dumping cases initiated by India and China against each other and as reported to the WTO. None of the anti-dumping investigation findings by India or China against each other's products have been challenged in the WTO.

Table 2.3. Number of Anti-dumping Cases

Initiator	Initiated	AD duties levied for	Avg. % where AD duty were levied	Challenged
India (against China)	70	55	79.7	0
China (against India)	2	1	50	0

Source: WTO

- 2.45 Both China and India regard that, it is mutually beneficial to develop bilateral trade on the basis of comparative advantages. Both sides will work together and cooperate to resolve issues related to trade relief measures, and promote dialogues between industries of the two countries to improve the trade environment.
- 2.46 The Chinese side expressed its request for recognition of Market Economy Status. India has witnessed the rapid economic advances made by China through its economic reforms since the late 1970s. The JSG recommends that the two governments study and interact on this issue with a view to search for a solution.

Recommendations

- 2.47 The previous section presented an overview of constraints to India-China trade. This section presents recommendations that will go some way in removing these constraints and enhancing bilateral trade to attain the potential levels of India-China trade as specified in the section on Potential for Expansion in Trade.

Consultation Mechanism

- 2.48 It is recommended that the existing mechanism of the Joint Economic Group, co-chaired by Minister of Commerce and Industry of India and Minister of Commerce of China, be fully activated, with meetings convened annually in principle. Likewise, the existing mechanism of Joint Working Group (Director General/Joint Secretary level) under the JEG, should meet at least twice in a year. The JEG oversees smooth development of trade relations between the two countries. The JWG will administer the work related to the JEG between the meetings of the JEG and play the role of channel and bridge to facilitate the resolution of other trade and market access related issues under the various joint consultation groups. The new structures under the joint consultation mechanisms are proposed in the following paragraphs¹.
- 2.49 In order to achieve the mutual objectives set out in this JSG report, it will be necessary to set up a mechanism for the resolution of issues outlined below. The JSG recommends that the JEG may be convened as soon as possible to consider, inter-alia, the JSG report. The various Joint Task Forces should be set up in order to arrive at appropriate mutual agreements within a stipulated period.

Transparency and Reconciliation of Trade Data

- 2.50 All policies and administrative rules, regulations and notifications, which impact upon bilateral trade between India and China, should be published and made widely available on a regular basis. It is recommended to establish a team of experts on the two sides who could monitor this on regular basis.
- 2.51 It is recommended that appropriate authorities/agencies on both sides exchange trade data on a regular basis and if considered necessary, establish a Joint Task Force to reconcile the data.

Customs Procedures

- 2.52 India and China should initiate negotiations related to the Customs Cooperation and Mutual Assistance Agreement as early as possible so as to improve customs supervision efficiency through bilateral cooperation and promote trade facilitation.

¹ The schematic presentation of the joint consultation mechanism is given in the Appendix – Figure 2A.1.

- 2.53 A uniform system of customs valuation, duties and documentation may be evolved across all ports of entry in both the countries.
- 2.54 Procedures of handling of goods at ports and customs clearance may be simplified and made more efficient.
- 2.55 In both 2.53 and 2.54 above there could be a particular focus on valuation and clearance of commodities of particular interest to India and China.

Standards, Certification and Regulatory Practices

- 2.56 In line with the spirit of the “Principle of National Treatment”, technical standards should be applied uniformly across imported and domestic products.
- 2.57 Both countries should prepare and implement conformity assessment procedures to ensure parity of market access conditions for foreign and similar domestically produced commodities.
- 2.58 A Joint Task Force should be set up within six months to harmonise standards in different areas. Based on the harmonization of standards, the JTF should facilitate the relevant agencies to work towards MRAs (and corresponding identification of Conformity Assessment Bodies) to be negotiated in phases.
- 2.59 Setting up of Food Inspection mechanism: A JWG between the Ministry of Agriculture and China AQSIQ should further promote the cooperation on SPS. A JWG should be established to (a) administer the MOU signed by the two countries in January 2002, and (b) to discuss other issues related to quarantine and food safety. The aim of JWG should be to work towards “Mutual Recognition Agreement” (MRAs) in the field of agricultural products, animal husbandry, dairy and food products. For the implementation of the MRA, the two sides could designate respective Conformity Assessment Bodies (CAB).
- 2.60 China should expedite the negotiation of the Phytosanitary Protocols in respect of the 14 fruits and vegetables with increased efficiency, with the objective of concluding SPS Protocols and certification procedures.
- 2.61 A consultation mechanism for WTO/TBT, should be set up by China AQSIQ and related Indian government department. Under this mechanism, different working groups need to be established in the areas such as agriculture, industry, standard, conformity assessment, etc.
- 2.62 China and India should strengthen the exchange and cooperation in the field of SPS on animals, plants and other products as well as harmonise the conditions for SPS. Besides, it is necessary to strengthen prevention

and control of epidemic disease in the border areas through signing related agreements.

NTBs

- 2.63 A Joint Task Force should be set up to identify and address various Non-Tariff Trade barriers existing in bilateral trade. The important issue is the identification of the non-tariff trade barriers and then their removal in a time bound framework.
- 2.64 It is important to stress that all technical and safety standards must have an objective and scientific justification.
- 2.65 India and China should promote cooperation in fisheries and dairy industry by eliminating bilateral trade barriers.
- 2.66 Full details of technical standards should also be made easily available.
- 2.67 A PSI (Pre Shipment Inspection) Agreement should be concluded between India and China to facilitate movement of goods.

Rules Of Origin

- 2.68 There should be a clear definition of Rules Of Origin. India and China should ensure that their rules of origin are transparent and are defined such that they do not have any restricting, distorting or disruptive effects on bilateral trade. For this, the ROO should be administered in a consistent, uniform and impartial manner. A Joint Task Force should be constituted to examine ROO related issues.

Improved Infrastructure Links

- 2.69 Increased frequency of direct shipping routes, reduced costs of transportation and expansion of air cargo facilities between the two countries need consideration.
- 2.70 Direct banking links and bilateral confirmation of L/Cs by Exim banks of India and China and other issues of cooperation in this field may be strengthened.
- 2.71 Direct flight links between India and China may be increased to at least one flight a day. Freight flights of viable frequency may also be introduced between the two countries.

Conclusion

- 2.72 This review of existing trade patterns between India and China suggests that very significant potential exists for substantial expansion of trade between the two countries. This can be achieved by much greater exchange of information, enhanced transparency on procedures, standards and other processes that effect trade, trade facilitation with regard to customs procedures and improvement in infrastructure links between the two countries.

Chapter 3

India-China Trade in Services

Importance of Services

- 3.1 Services sector accounts for a significant proportion of the GDP in both India (more than 50 per cent) and China (more than 30 per cent). However, the importance of the sector in India's economy has increased more rapidly than that in China's economy. Between 1995 and 2002, the contribution of services in India's GDP increased from 43.6 to 50.7 per cent and that for China from 30.7 to 33.5 per cent.² During the same period, India's trade in services as a percentage of its total trade increased from 19.8 to 27 per cent and that for China decreased slightly from 15.7 to 12.4 per cent. In absolute terms, China's export and import of services exceeded that of India's (Refer Table 3A.1 in Appendix) and is increasing. Hence the declining share simply reflects a much faster growth of China's trade in goods. The ranking of India and China among WTO member countries in export and import of commercial services has improved significantly between 1995 and 2003. In 1995, India ranked 34th and 28th in services export and import respectively which improved to 21st for both exports and imports in 2003. Similarly, in 1995, China ranked 16th and 12th among WTO member countries in exports and imports of services, but had 9th and 8th positions respectively in 2003 (Refer: Table 3A.2 and 3A.3 in Appendix). The Revealed Comparative Indices (RCAs) in three broad service sectors – transport, travel and other services, based on IMF Balance of Payment Statistics (Refer: Table 3A.4 in Appendix) shows that China has comparative advantage in travel services while India has comparative advantage in other services, including in the export of software and other IT-enabled services. Thus, there is potential for trade in services between the two countries.

Current State of India-China Bilateral Trade in Services

Bilateral Investment in Services Sector

- 3.2 The scale of India-China bilateral investments in services sector is not large. At present, India's investment projects in China exceed China's in India. The list of Indian companies which have a presence, or have plans for establishing a presence, in China, gives indication of the service sectors in which India has a bilateral trade interest. Similarly, the Chinese companies working in India, or planning to set up operations, provide indication of the areas of trade interest to China. India's investment, in the services sector is focused on IT training, software solutions and higher education, pharmacy, banking and trade etc. For example, APTECH and NIIT, two IT training and education enterprises of India, have set up over 250 franchises in China; State Bank of India, Bank of India, Punjab National Bank, Bank of Baroda and ICICI Bank have set up representative

² World Development Indicators, 2004.

offices in China; the top software producers and exporters of India including Infosys Technologies, Tata Consultancy Services, have set up their offices and R&D centers in China.

- 3.3 China's investments in India's services sector are mainly in trade and IT related R&D . For example, China National Machinery and Equipment Import and Export Corporation, and China Metallurgical Import and Export Corporation have set up their representative offices in India; Huawei Technologies has established its software R&D center in India.

Bilateral Cooperation Agreements Related to Services Sector

- 3.4 Starting from 1990s, China and India have signed a number of cooperation agreements related to services sector, including in education, human resources, auditing, consultancy, tourism, marine transportation, environment and technology.

Potential and Priority Fields of China-India Cooperation in the Services Sector

Significant Potential for Bilateral Cooperation and Development of Trade in Services

- 3.5 The share of services trade of India and China in total world trade in services has been increasing continuously. This not only indicates that India and China have bilateral trade potential in services but also that enhanced bilateral trade would be mutually beneficial.
- 3.6 First, the governments of China and India actively support cooperation in services sector. Bilateral agreements related to the services sector signed between India and China are indicative of this.
- 3.7 Second, the rapid economic development of the two countries has provided great potential for cooperation in services sector. In the next 5~10 years, the economies of China and India are expected to maintain high growth rates. Targeting the building of a well-off society, China will pay more attention to the development of services sector to create more job opportunities, optimize the efficiency of economic growth and improve the quality of people's life. In the next 5~10 years, China's demand of services in such fields as software, consultancy, financial services such as auditing and accountancy, legal services, environment, education and health will generate significant business opportunities for international and Indian service providers. India has competitive advantages in these fields and could increase its exports and investments. Similarly, India recognises the importance of investment in its infrastructure. The demand for increased investment in infrastructure will provide many business and

contractual opportunities for international construction and engineering firms. Chinese construction enterprises have experience in acquiring contracts for overseas projects in areas like electric power, telecommunications and highways, and might become strong bidders for Indian projects which are offered through international bidding. Therefore, the rapid economic development of the two countries will generate opportunities for the development of bilateral trade in services, and this in turn will contribute to the development of rapid and sustainable economic growth in the two countries.

- 3.8 Third, the rapid development of bilateral trade in goods will encourage development of trade-related services. In recent years, with the improvement in bilateral political relations, the economic and trade relations between the two countries have also developed rapidly, and bilateral trade in goods has been increasing at about 50% annually. By 2010, the bilateral trade is expected to exceed 30 billion US dollars. The development of trade in goods will inevitably lead to growth of trade in related services such as transportation, logistics, financial service and business services.
- 3.9 Fourth, comprehensive economic cooperation will increase the international competitiveness of the two countries in services sector. Chinese and Indian economies are complementary not only in the goods sector but also in services. Through cooperation between industries and enterprises, it is possible to benefit from this complementarity. For example, while China has comparative advantage in manufacturing hardware of computers and electronics and telecommunications equipment, India has comparative advantage in software development and R&D. Combining these advantages will greatly improve the international competitiveness of the two countries in this sector.
- 3.10 Fifth, with the comprehensive development of bilateral economic and trade cooperation, the scope and mode of trade in services will be further expanded. At present, due to limited mutual investment, trade in services between China and India is mainly conducted through modes 1, 2 & 4. There is potential for the two countries to promote bilateral trade in services through all modes. China has adopted "going abroad" strategy and the overseas investments have gradually increased. Asian countries are the primary destinations for Chinese investments. China will inevitably increase investment in India as information gaps about opportunities in India are bridged. WTO commitments imply further opening up of China's services sector, which could result in more investment from India. Development of bilateral trade will also contribute to increased trade in services between the two countries in all modes of delivery of Services.

Priorities and Focus of Cooperation

- 3.11 Based on current state and development potential of the services sector, and trade in services, China and India should strengthen their cooperation in the following fields :

Transportation Services

- 3.12 More than 90 per cent of foreign trade of both China and India is through ports. Both the countries are in the process of developing and modernizing their ports. Chinese ports such as Shanghai and Shenzhen have achieved “hub port” status. Indian ports such as the JNPT are also being developed. The rapid development of bilateral trade in goods will expand the need for transportation services, which in turn will promote further development of trade in goods.
- 3.13 The JSG notes that maritime and logistic services are critical elements for development of trade between the two countries. In 1996, India and China signed an agreement on cooperation in maritime transport services which aimed at developing and maintaining an effective working relationship between concerned authorities of the two countries. This agreement provided that each country would assist the other’s vessels. Shipping Corporation of India has opened an office in China and COSCO (India) Shipping Private Limited has opened an office in India.
- 3.14 Air connectivity is equally vital and an urgent requirement for the expansion of trade, tourism and people-to-people contacts. Air traffic between India and China is governed by the bilateral Air Services Agreement. Under this the two countries established direct commercial airlink in 2002.
- 3.15 According to statistics, in 2003 the value of transportation services trade between China and India was about a quarter of the total, only next to the category of other business services. It is expected that in the next 5 to 10 years, transportation services will play a leading role in the development of China-India trade in services.

Recommendations

- 3.16 To strengthen cooperation in transportation services, JSG recommends that China and India should ensure that ports facilitate easy movement of goods. With increased movement of goods and passengers between India and China, gradual increase in shipping lines and intensity of marine transportation, as well as, increase in flights including direct flights, may be undertaken.

- 3.17 JSG recommends that the two countries should work closely to improve logistic services and reduce delays at ports. Lowering of costs and expansion of shipping and air transport facilities could enhance competitiveness of this sector in the two countries.

Tourism and Related Services

- 3.18 Both China and India abound with rich tourist destinations, have long histories and varied cultures, architectural styles, religions and climates. In 2001 China was the largest exporter and importer of travel services³ amongst the developing countries and India ranked 12th⁴. Although outbound tourism is growing in the two countries, bilateral flow of tourists is very small compared to the total outbound tourism. Only 15,422 Chinese came to India and 159,361 Indians went to China in 2002⁵. Both these figures constitute less than one per cent of each country's total inflow of tourists. China's import of travel services from India will improve rapidly since India has already been granted the Approved Destination Status for self-paid tourists. Similarly, the Ministry of Tourism of India has also adopted a number of measures to facilitate Chinese tourists. With the development of economic relations and exchanges in technological, educational and cultural fields, business and sightseeing tours are expected to increase more rapidly, and the growth rate might possibly exceed that of trade in goods.

Recommendations

- 3.19 To facilitate trade and people-to-people exchanges, the JSG recommends that related departments of both countries conduct further discussion on the possibility of opening their markets to individual travelers. The travel and tourism industry in each country needs to establish its presence in the other, and develop attractive tourist packages and products keeping in mind the consumer psyche of each country's tourists. The governments of both countries could provide greater facilitation for enterprises of the counterpart to start business operations in the field of tourism services in domestic market, such as setting up tourist offices in India and China respectively, making available each country's cuisine in the other through exchange of chefs, and setting up of joint promotion councils in tourism, all of which can greatly promote the development of tourism sector. The two countries could also work together to promote MICE and health tourism.

³ Including goods and services acquired by non-resident travellers during visits shorter than one year.

⁴ UNCTAD Handbook of Statistics, 2003

⁵ Tourist Statistics, 2002, Ministry of Tourism and Culture, Government of India

Construction and Consultancy Services

- 3.20 Although the construction sector of both India and China is booming, companies from the two countries have not been very successful in entering each other's markets. Nevertheless, there is a growing trade potential in this sector. India is developing its infrastructure and further improving its manufacturing sector, while China has accumulated considerable experience in the field of civil construction, engineering and manufacturing operations.

Recommendations

- 3.21 The fields of infrastructure, construction, manufacturing and consultancy offer commercial opportunities to the businesses and industry of the two countries which can be exploited. The construction and consultancy companies of India and China could enter into joint ventures, consortium, etc. and together leverage their complementary skills to enter third country markets.

Environment Services

- 3.22 China and India, in their drive towards sustainable economic development, have been confronted with such challenges as the reasonable and effective use of non-renewable resources and application of measures to promote environmental protection. China and India have already signed agreements on environment cooperation and MOU on marine technological cooperation. The two countries should further strengthen environmental cooperation to realize their objectives.

Recommendations

- 3.23 Under China's WTO accession commitments, with the exception of environment quality supervision and pollutant resource inspection, foreign providers are permitted to conduct environment services in the form of joint ventures, which could be majority share-holdings. Therefore, to satisfy the needs of development of environment service market of the two countries, enterprises in the environment sector of both sides should try to expand many folds the trade in environment services.

Information and Communication Technology

- 3.24 This is one of the major sectors of mutual bilateral trade interest between India and China. The annual export of India's software and software processing technologies exceeds 12.5 billion US dollars. There is great potential in the Chinese market, whose scale is estimated to increase from 2 billion US dollars of today to more than 6 billion US dollars in 2007.

China could possibly become one of the major importers of India's software and software processing technologies. India could export software installation technologies to China's hardware manufacturers, while China could provide hardware to India for its software development platform. The complementarity of advantages will greatly upgrade the international competitiveness of computer and information products of the two countries.

Recommendations

- 3.25 The JSG recommends that companies from India and China should continue to explore each other's markets. The two countries can use their core competencies in hardware and software to increase their share of world's trade and gain greater access in third country markets.
- 3.26 Industry association such as NASSCOM may closely interact with its counterpart organization in China to promote co-operation in this sector. Both countries should work together to enforce copyright and reduce piracy. Moreover, the software enterprises of both countries can easily adapt to the ever changing high-tech market and strengthen their status in global market by having more joint research projects, enhancing the exchange of technological personnel and cooperation in training.
- 3.27 JSG also recommends that the issue of high bilateral call charges should be discussed between government bodies of the two countries.

Health Services

- 3.28 There is significant scope for collaboration between India and China in the health sector. An agreement on cooperation in health and medicine was signed in September 1994 to set up a working group for co-operation in traditional medicine including yoga and acupuncture, pharmacology and pharmaceuticals, infectious disease and parasitology, maternal and child healthcare, tropical medicine, occupational health, etc. Training programmes for doctors, exchange of information and scientific co-operation and research were covered under this agreement. In November 2003, acupuncture and its various branches, acupressure, acumassage, hand and foot acupressure, reflexology, auriculo therapy, etc. were recognised by the Indian government. This offers scope for cooperation with Chinese specialist. Yoga and ayurveda are in great demand in China. India is fast developing as a health care hub in the region and Indian hospitals have gained worldwide recognition. The cost of medical treatment in India is only one-fifth of that in developed countries. There is demand for health care in China and India can offer health care services to Chinese patients. Chinese doctors can come to India for medical training.

Recommendations

- 3.29 The JSG recommends that the two sides can promote health services trade through exchange and cooperation of medical care personnel, cross-border diagnosis and mutual investments and training of personnel of one country in the other. Since China allows the establishment of joint venture hospitals and clinics, India could become an important exporter of medical care service to China, as there will be greater demand for high-quality medical personnel who could provide good services as well as interact easily with foreigners who come to China for business and tourism.
- 3.30 The Health Ministries of the two countries should work closely to initiate more training and collaborative research. To enhance trade in traditional medicines, India and China should recognise each other's medical systems. India and China should collaborate in traditional medicines through training, workshop, exchange of specialists, etc.
- 3.31 India and China can work together to create health facilities to attract patients from other countries.

Accounting, Auditing and Consulting Services

- 3.32 With the number of enterprises engaged in international trade and investment rapidly increasing, China needs a large number of accountants, auditors and consulting advisors with rich knowledge in international practices. India has the human resource advantages in these fields.

Recommendations

- 3.33 Since China has committed to open these fields to the outside world under the multi-lateral trade system, enterprises of India can provide such services to China through cross-border supply or commercial presence.

Audio-visual and Entertainment services

- 3.34 China and India are both countries with ancient civilizations and have rich cultures. The expansion of trade in entertainment products, especially film and TV, would not only promote the development of entertainment industry but also enrich the cultural life and foster friendship between the peoples of both countries. India is the largest film producing country in the world and its music industry is the third largest in Asia. It has significant export potential in audio-visual services. China is also a large producer of films and videos and is large consumer of these products. Aiming to extend international exchanges and satisfy the diversified needs of people,

China has gradually expanded foreign trade in entertainment products. Indian films were once very popular in China and have the potential to enter China's market. Chinese audience appreciates films and documentaries on Indian culture. Indian film producers can shoot their films in some not so popular, but scenic and cost-effective locations in China. Indian studios can provide post-production facilities to Chinese films. China's film and video enterprises also want to tap the Indian market, and co-production in films, documentaries, etc. would be beneficial for the audio-visual sector of the two countries. India and China already have a bilateral cultural agreement which was signed in 1988.

Recommendations

- 3.35 The JSG noted that there is significant scope for collaboration between the two countries in the audio-visual sector. The respective ministries of both the countries should encourage co-production of films, documentaries, etc. India and China can sign a co-production agreement. In future, the governments of China and India can promote trade in the field of audio-visual and entertainment services from the following two aspects. Firstly to facilitate the entry of films into each other's market and secondly to strengthen exchange and cooperation of film and video makers to make them understand the demand in each other's markets to help develop suitable products, which cater to the tastes of the consumers. This will not only help the film and video products to enter into the counterpart's market, but will also help to harness the combined cultural richness and production skills so as to upgrade the quality and international competitiveness of film and video products.
- 3.36 Governments of the two countries should encourage theatrical display of Indian movies dubbed in Chinese in China and Chinese movies dubbed in English and Hindi in India. Both China and India should work closely to reduce piracy.

Education Services

- 3.37 India has rich experience in international exchange of English speaking higher education professionals and teachers in the fields of IT, engineering technology, medical care, economics, law and finance. These professionals enjoy a reputation for high quality. Indian-funded IT training companies in China have performed exceedingly well. Since China has the strategy of revitalizing the country through science and education, it needs to improve the level of education and personnel quality in these and related fields by enhancing cooperation with other countries. China had committed upon its accession to the WTO to allow Chinese-foreign cooperation in running schools and a majority share-holdings by the foreign side. The opening up of China's educational field has generated

great opportunities for Indian education services providers. In India, there is a demand for Chinese speaking people. The exchange of students between India and China has largely been through government scholarships. Of late many Chinese students are coming to India to study English, Hindi, Sanskrit and social sciences. Indian students prefer to go to China to study acupuncture and other traditional medicines. Indian premier institutes such as Indian Institutes of Managements and Indian Institutes of Technology are well recognized in China.

Recommendations

- 3.38 To promote bilateral education services, the JSG recommends that the two governments should fully implement the bilateral visa agreement and discuss further means to promote people-to-people exchanges including exchange of students. The Ministry of Human Resource Development, India and Ministry of Education, China should facilitate collaboration between the research institutes of the two countries. Exchange of students between the two countries can be facilitated through more scholarships. Exchange of teachers will be mutually beneficial and can be facilitated through intergovernmental agreements. In India, there is a requirement of Chinese speaking teachers while in China there is a requirement of English speaking teachers. Governments of the two countries can facilitate the cross-country movement of qualified teachers in such areas. The two countries should remove restrictions on participation of educators and trainers. Restrictions should also be removed from offering education and training on the Internet.
- 3.39 India and China can also explore the possibilities of co-operation in R&D, in areas such as biotechnology, medicine, non-conventional energy, computer software, etc. Exchange of scientists and technical persons between the two countries would facilitate such co-operation.

Financial services

- 3.40 An MOU on co-operation in banking was signed in October 1994 between the Reserve Bank of India and People's Bank of China. The MOU mentioned that the State Bank of India and other Indian banks would strengthen banking arrangements with the Chinese banks in and outside China to facilitate trade. Banks from both countries would open representative offices in the other country, subject to the regulatory regime of the country.
- 3.41 Five Indian Banks - State Bank of India, Bank of India, Bank of Baroda, Punjab National Bank and ICICI Bank have their representative offices in China while Union Bank of India has sought the RBI approval to set up a representative office in China.

- 3.42 With the growth in trade between the two countries there is significant scope for collaboration in the banking sector. Indian banks would like to cater to Indian traders in China and would not enter into direct competition with other banks in China. Indian financial sector can play a proactive role in developing rural small-scale banking in China.
- 3.43 The EXIM Bank of eight countries including India and China had signed a Multilateral Letters of Credits Confirmation Agreement to promote interregional trade and economic co-operation. Within this multilateral framework India and China can sign a bilateral agreement on confirmation of Letters of Credits (LCs). The EXIM Bank of India and China are in the process of such discussion which would stimulate trade between the two countries. The EXIM Banks of the two countries are also discussing reciprocal lines of credit of US \$ 100 million.
- 3.44 A mechanism to further economic and financial dialogue between India and China is being established.

Recommendations

- 3.45 The JSG recommends that the Central Bank of the two countries can facilitate the opening of branches of Indian banks in China and Chinese banks in India. The JSG recommends that an Agreement on Bilateral Confirmation of LCs should be signed by the EXIM banks of India and China. Through the Economic and Financial dialogue, the two countries should identify additional opportunities to promote business in the financial sector.

Advertising services

- 3.46 Indian advertising industry is very well developed, while in the case of China, the industry is developing rapidly. Co-operation in this sector, especially in areas such as brand building and marketing would benefit Chinese industry and give Indian industry exposure to the Chinese market. Hosting of World Advertisement Congress in China would give a boost to the advertising industry in China. Growing consumerism in India and China provides an impetus to the advertising industries of both the countries to gain from each other's experiences. There is significant scope for expanding trade in this sector.

Recommendations

- 3.47 The JSG recommends that government and industry associations of the two countries should encourage workshops, seminars, etc. between the advertising companies of the two countries, which would further promote

collaboration in this sector. India can provide English-speaking trained manpower in advertising and collaboration in this area would be mutually beneficial.

Cross-sectoral Barriers to Trade in Services

The constraints to trade in services include:

- Connectivity: The call charges between the India and China are very high. The air and sea connectivity between the two countries is limited and should be enhanced.
- Movement of professionals between the two countries is restricted by lack of recognition of qualifications.
- Lack of transparency in regulation and bidding procedures, bureaucratic delays in clearances of contracts, frequent changes in regulations, security issues, etc.
- Language is also a major barrier to trade. There are very few Chinese speaking people in India and although more and more Chinese are learning English, communication is a major impediment to trade.
- Lack of knowledge, awareness and information of each other's market.
- Lack of data on trade in services

Suggestions on Strengthening Cooperation in Priority Fields

- 3.48 **Cooperation in compilation of statistics related to trade in services:** The statistics for trade in services is sourced from the BOP statistics of the IMF. There is no disaggregated data on trade flow in services country-wise. India and China should endeavour to cooperate to compile the data on trade in services between the two countries.
- 3.49 **Establishment of a mechanism for certification of qualifications of services providers:** The professions of architecture, health, IT and accounting are well regulated in India by the regulatory bodies. Both India and China should work towards establishing mutual recognition agreements between the regulatory bodies of the two countries in these regulatory professions. In respect of non-regulated professions, each country should make transparent its regulations on qualification requirements and procedures, technical standards and licencing requirements. The two countries should periodically discuss these issues to facilitate services trade in Mode 4.
- 3.50 **Measures to facilitate movement of people:** An MOU was signed between India and China in June 2003, simplifying the visa regime. The MOU lays down mutually agreed procedures for the issue of visas in various categories (such as business, tourist, student, employment, etc.) for private passport holders and on the Chinese side, also for holders of "ordinary passports for public affairs" who are mainly employees of state

owned enterprises. As per this MOU, Indian and Chinese businessmen can apply for a multiple entry visa.

- 3.51 The JSG recognizes that liberalizing the temporary movement of people would significantly enhance economic linkages and trade in services between India and China. Both the countries should fully implement the bilateral visa agreement of June 2003 so that movement of people takes place as per the commitments made in it. The JSG recommends that the two countries should discuss measures to further liberalize the visa regime, especially in the case of business visitors, professionals, tourists, patients and students. The conditions for granting multiple entry visa should be made more liberal than what they are at present.
- 3.52 **Role of intermediary organizations:** The significant role of non-governmental intermediary organizations such as industry associations in gathering data, providing information sharing platform for enterprises and strengthening communication between the government and enterprises should be encouraged.
- 3.53 India and China should encourage and facilitate building of understanding and trust, collaboration and joint ventures between the companies of the two countries. This can be done through organization of workshops, seminar, trade fairs, etc. The industry associations of both countries can collaborate in this regard.
- 3.54 **Cooperation in IT:** The two countries can leverage their complementary skills in sectors such as Information Technology to enter third country markets.
- 3.55 **Connectivity:** The ease and cost of connectivity enhances efficiency of business transactions by the entities of the two countries. The JSG recommends that the two countries take significant steps to enhance telecom connectivity and bring down the costs of telecom tariff between themselves. The JSG also recommends better air connectivity and the related air management departments could conduct further discussions on the possibility of amending the bilateral air services agreement including increase in capacity entitlements, more points of call, increase in the number of intermediary and beyond points, cargo traffic rights, multiple designations.

Chapter 4

Investments

Introduction

- 4.1 Both China and India have been ranked among the top FDI destinations in the world. China hosted 54 billion USD FDI in 2003 and India hosted 4.3 billion USD. Outward FDI from the two countries has been increasing, as well. The relatively small amount of mutual investment between China and India reflects the great potential for future cooperation. Investment cooperation is an important field for the development of future bilateral economic relationship.

Policies on Cross Border Investment

Policies on Inward FDI

China's Policies on Inward FDI

- 4.2 China has been improved its investment climate to attract FDI since the end of 1970s. There are three laws regulating FDI, which are *The Law of Foreign Wholly Owned Enterprises of the People's Republic of China*, *the Law of Chinese-Foreign Equity Joint Ventures of the People's Republic of China*, *the Law of Chinese-Foreign Contractual Joint Ventures of the People's Republic of China* and *Catalogue for the Guidance of Foreign Invested Industries*. The government has also formulated industrial and regional guidance for FDI. The government provides preferential treatment toward FDI. All laws and regulations were revised after China's WTO accession to meet the requirements of WTO rules and its commitments.
- 4.3 Industrial distribution of FDI is mainly guided by *the Catalogue of Guidance for Foreign Investment Industries*. The Catalogue classifies FDI projects into 4 kinds: "encouraged", "allowed", "limited" and "prohibited". "Encouraged" projects include 262 categories, "limited" 75 categories and "prohibited" 34 categories. The main fields where FDI is encouraged are: first, agriculture sector, such as renovating traditional agriculture, developing modern agriculture and promoting agricultural industrialization; second, infrastructure and basic industries like transportation, energy and raw materials; third, high-tech industries like electronics and IT, biotechnology, new materials and aviation and spaceflight, and establishing R&D centers in China; fourth, to adopt advanced and appropriate technologies to renovate such traditional industries as machinery, light industry and textiles, and to realize the upgrading of equipments of the industries; fifth, such projects as comprehensive utilization of resources and recyclable resources, environment protection and municipal projects; sixth, investment in advantageous industries in western regions; and seventh, foreign investment in projects whose products all go for exports.

FDI in western areas is guided by *the Catalogue of Guidance for Foreign Investment Industries in Western Areas*.

- 4.4 Regional guidance for FDI has been in work ever since the beginning of China's opening up. FDI is encouraged in special economic areas, Western areas and Northeastern industrial bases. There are various types of special economic areas in China, such as Special Economic Zones (SEZs), Economic and Technological Development Zones (ETDZs), High-tech Industries Development Zones (HIDZs), Bonded Areas and Export Processing Zones (EPZs), etc.

India's Policies on Inward FDI

- 4.5 The New Industrial Policy (NIP) announced on 24 July 1991 marked a major overhaul of the Indian FDI policy. Firstly, the industrial licensing (or approval) system in all industries has been abolished except where it is required for strategic or environmental grounds. In order to bring greater transparency in the FDI approval system and expedite their clearance, a system of automatic clearance was put into practice for FDI proposals fulfilling the conditions laid down, such as the ownership levels of 50 per cent, 51 per cent, 74 per cent and 100 per cent foreign equity allowed in sectors specified for each limit. The cases other than those following the listed norms are subject to normal approval procedures. A new package for enterprises in EPZs and 100 per cent export-oriented units was announced including automatic clearance for proposals fulfilling specified parameters on capital goods imports, location and value addition etc. The guidelines have been laid down for this approval process as well. The Foreign Exchange Regulation Act (FERA) of 1973 was amended in 1993 and restrictions placed on foreign companies by it were lifted.
- 4.6 New sectors such as mining, banking, insurance, telecommunications, construction and management of ports, harbours, roads and highways, airlines, and defence equipment, have since been thrown open to private, including foreign owned, companies. However, the extent of foreign ownership continues to be limited in some of these service sectors, e.g. 74 per cent in banking, 26 per cent in insurance, 51 per cent in non-banking finance companies, 49 per cent in telecommunications, 74 per cent in internet service providers, 49 per cent in domestic airlines, 74 per cent in shipping, 51 per cent in export-oriented trading, 49 per cent in broadcasting, 74 per cent in advertising, 51 per cent in health and education services. Foreign ownership up to 100 per cent is permitted in most manufacturing sectors – in some sectors even on automatic basis - except for defence equipment where it is limited to 26 per cent and for items reserved for production by small-scale industries where it is limited to 24 per cent. However, FDI above 24 per cent is permitted in small-scale industries (SSI) reserved items subject to a mandatory export obligation of

50 per cent of annual production; this export obligation also applies similarly to a large domestic enterprise. The dividend balancing and the related export obligation conditions on foreign investors, which applied to 22 consumer goods industries, were withdrawn in 2000. The Indian FDI regime with progressive liberalization has been rated as ‘one of the most liberal in the world’³ by business consultancy services.

- 4.7 In order to boost investor confidence and provide a catalytic push to bilateral investment flows, India has embarked upon the path of concluding Bilateral Investment Promotion and Protection Agreements (BIPA) with other countries. Currently, BIPAs are in place with 46 countries and another 11 are in the process of ratification. India is also a member of Multilateral Investment Guarantee Agency (MIGA). For settlement of investment disputes, India though not a signatory to the International Centre for Settlement of Investment Disputes (ICSID) convention does use the additional facility available for non signatory states for settlement of Investor-State disputes. However, India does subscribe to the Arbitration Rules of the UN Commission on International Trade Law (UNCITRAL) and has incorporated the spirit of the same in its Arbitration Law.

Policies on Outward Investment

China’s Policies on Outward Investment

- 4.8 As a developing country, China’s currency is not freely convertible under capital accounts and the government exercises control on outflow investments. However, with China’s increasing integration into the global economy as well as the improvement of its balance of payments (BOP), Chinese government has gradually liberalized its policies on outflow investment since the late half of 1990s. In 2001, Chinese government proposed the “going out” strategy and adopted encouraging measures on outflow investments that confirm with the State’s foreign economic strategy.
- 4.9 China has speeded up its steps in loosening the control on overseas investment in recent years. In 1999, China adopted encouraging measures on the investment of overseas processing trade⁴. Afterwards, China has gradually adopted a series of measures to loosen the control and enhanced its guidance on enterprise outflow investment, for example, in deregulating the authority of the governments to examine and approve outflow investments and abolishing profit remittance deposit requirement⁵.

³ Morgan Stanley, *New Tigers of Asia*, 26 July 2004: 46

⁴ General Office of the State Council issuing the *Circular Concerning Encouraging Enterprises to Conduct Overseas Processing and Assembly Business* from the Ministry of Foreign Economic and Trade Cooperation, State Economic and Trade Commission and the Ministry of Finance (Guo Ban Fa [1999] No.17)

⁵ *Circular of the State Administration of Foreign Exchange on Relevant Issues Concerning Deepening the Reform of Foreign Exchange Administration on Overseas Investment*, October 15, 2003.

In July 2004, Chinese government issued the *Catalogue of Countries and Industries for Guiding Outflow Investment* (NO. 1) for the first time, stipulating the countries and industries where the State encouraged outflow investment. The article 2 of the *Regulation on the Approval Matters of Outflow Investment and Establishing Enterprises* stipulates that: “the State supports and encourages all kinds of enterprises of different ownership with comparative advantages to go out to invest and establish enterprises abroad.”⁶

India’s Policies on Outward Investment

- 4.10 The policy governing Overseas Direct Investment (ODI) has been liberalized since the early 1990s. The Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries Abroad as amended in October 1992, in May 1999 and July 2002 provide for the automatic approval of outward FDI proposals up to a certain limit that has been expanded progressively from US\$ 2 million in 1992 to \$ 100 million in July 2002. In January 2004 the limit of \$100 million has also been removed and Indian enterprises are now permitted to invest abroad in JV/WOS up to 100 per cent of their net worth on automatic basis.
- 4.11 Indian companies are investing in an increasing number of projects over the past few years with actual investments exceeding a billion dollars annually. Manufacturing sector accounts for nearly 55 per cent of cumulative Indian Outward Direct Investments with about 40 per cent in services. Major areas of their operation are in pharmaceuticals, metal products, auto components, edible oil processing, fertilizers and chemicals, oil exploration, software services, among others.

Bilateral Investments between China and India

Indian Investments in China

- 4.12 The presence of Indian companies in China has also increased significantly, especially in sectors such as iron and steel, textiles, chemicals, automobile components, and pharmaceuticals. Indian companies in China are active in services sector like restaurants, entertainment, culture and banking.
- 4.13 According to the Indian Ministry of Finance, total Indian investments approved by the Government over 1996-2004 (June) in China amount to US\$ 96.5 million. According to the Chinese Ministry of Commerce, India had invested in 101 projects in China by the end of 2003 and the actual investment was US\$ 79.1 million. In 2003, 30 new projects involving about US\$ 15.9 million were undertaken. Among the Indian companies that have

⁶ The Regulation on the Approval Matters of Outflow Investment and establishing enterprises of the Ministry of Commerce, October 1, 2004

set up joint ventures or subsidiaries include pharmaceuticals companies like Ranbaxy, Aurobindo Pharmaceuticals, Dr. Reddy's Laboratories, and IT software companies like Aptech, NIIT, Tata Consultancy Services, Infosys. In manufacturing Sundram Fasteners Ltd. for high tensile fasteners, and Aditya Birla Group for carbon black production have also set up base in China. Many others have opened trade/representative offices in China and might deepen their presence in future. A number of Indian companies are also planning investments in various fields in China in the coming years.

Chinese Investments in India

- 4.14 China is also emerging as an important source of FDI in Asia as both state owned and private Chinese companies are starting to invest abroad. According to statistics released by the Ministry of Commerce, China, Chinese companies invested \$2.7 billion abroad in 2002. According to the Ministry of Commerce and Industry, Government of India, during the period January 1991 to March 2004, India has approved Chinese FDI of US\$ 231.6 million. The approved investments, however, have been slow in materializing as actual inflow has been only to the order of US\$ 0.63 million. According to the statistics of the Chinese Ministry of Commerce, total quantum of Chinese investments in India till 2003 was about US\$ 20.6 million covering 97 Chinese proposals for foreign collaborations mainly in the telecom, metallurgical, transportation, electrical equipment and financial sectors. Chinese sources suggest that the official figures might underestimate the actual investment, as some Chinese companies tend to invest before they declare their investment to the government.
- 4.15 Obviously there is need for reconciling the statistics of FDI inflows in India where Indian and Chinese sources diverge substantially. A part of the reason for discrepancy is the fact that some of the Chinese investments in India are routed through Hong Kong. Even after reconciliation of the figures, the existing bilateral investment flows between the two countries hardly represent the potential and synergies that exist between the two large and dynamic economies.

Areas of Future Investment Cooperation

- 4.16 Sustainable efforts by the Chinese and Indian governments have improved their investment climate and made them top FDI destinations in the world. The huge domestic market, complementary characteristics of the two countries and improving political atmosphere between the two countries will provide great opportunities for bilateral investments.
- 4.17 Chinese enterprises may find fruitful opportunities for investment in India, among other sectors, in power generation projects and other infrastructure

sectors, manufacture of electronic hardware, food processing etc for which there is growing market in India. There may be fruitful opportunities for Chinese enterprises to manufacture garments in India for export to the EU as GSP benefits will be phased out for Chinese garment exports. Aiming to develop the bilateral economic and trade relations, Chinese government is encouraging Chinese enterprises to invest in India in fields such as crop planting, coal, iron ore, manufacturing of apparatus, meters and office equipment, electric power machines as high-press and low-press switch and dynamotor, mechanical manufacturing of refrigeration equipment and air conditioners etc., electric equipment such as TV sets, plastic products, pharmacy, trade, software, construction, transportation, tourism, infrastructure and generation and supply of electricity etc.⁷

- 4.18 Indian enterprises may also find attractive investment opportunities in China in the areas of pharmaceuticals, auto components, light engineering goods, automotives, financial services besides IT software and training.
- 4.19 Chinese and Indian enterprises may find mutually rewarding opportunities of pooling their complementary strengths by building consortia for jointly undertaking third country projects and investments. Such opportunities may exist in design engineering and construction industry and other heavy industries. They could also consider entering into strategic alliances or joint ventures for exploiting the synergies for mutual benefit. IT industry provides many such opportunities but there may be opportunities in other areas such as biotechnology, especially in applications relating to agriculture and health.

Enhancing India-China Investment Cooperation

Bilateral Framework for Investment

- 4.20 India and China have already signed an Agreement on the Avoidance of Double Taxation in July 1994. A Bilateral Investment Promotion and Protection Agreement (BIPA) is currently under negotiation. The JSG feels that an early signing of BIPA will be an important step towards promotion of bilateral investments and boosting investor confidence. Investment dispute settlement mechanism should be improved. Companies should be encouraged to enhance coordination, communication and negotiation. Disputes should be resolved through mutually accepted international arbitration organizations.

⁷ *The Catalogue of Countries and Industries for Guiding Investment Overseas (NO. 1)* from the Ministry of Commerce and the Ministry of Foreign Affairs, PRC. For details, visit http://www.mofcom.gov.cn/article/200407/20040700252005_1.xml

Transparency and Information

- 4.21 To improve the transparency of regulations and policies, JSG recommends links between the websites concerning the foreign investment laws and regulations, policies and market information should be established.
- 4.22 To increase mutual contact mechanism. An institutional mechanism has been created in the form of a Joint Business Council (JBC) which meets annually with the Federation of Indian Chambers of Commerce and Industry (FICCI) on the Indian side and the China Council for the Promotion of International Trade (CCPIT) on the Chinese side being the nodal organizations. Both FICCI as well as the Confederation of Indian Industry (CII) have also set up representative offices in China. JSG feels there is a need for greater interaction between business and industry representatives of the two countries.

Investment Facilitation

- 4.23 The JSG recommends that a Bilateral Investment Promotion and Protection Agreement (BIPA) should be signed on the basis of the principle of most favored nation (MFN) and national treatment (NT) without prejudice to the laws and regulations of each country.

Mutual Investment Promotion

- 4.24 In view of the low cross-border investment between India and China, the two countries should make special effort to promote investment in both directions.

Chapter 5

India-China Economic Cooperation

Scope of India-China Economic Cooperation

- 5.1 India and China have certain unique characteristic features in terms of size of economy, resource endowments and domestic markets. Their economic structures are broadly complementary. The synergies inherent in the complementarities can be harnessed for mutual benefit by the business and industry of the two countries.
- 5.2 Previous chapters have dealt with the potential which exists for promoting trade in goods, trade in services and mutual investments between China and India. The expansion in trade and investment flows, besides creating demand for related infrastructure and other supporting services will generate fresh opportunities for co-operation in a wide spectrum of socio-economic services. In order to turn this potential into business opportunities for the enterprises of the two countries, it is necessary for the governments to cooperate, including in coordination of their efforts to facilitate trade and investments, and in exploring the possibility of establishing a bilateral FTA or CECA. From the standpoint of the JSG, liberalization alone will not be sufficient to make use of the full development potential in the two countries. The collaborative arrangements should go beyond trade and investment measures suggested in the previous chapters. All these efforts will not only help the enterprises in taking advantage of business opportunities, but will also facilitate in bringing about closer China-India economic and trading ties in a short period of time. The strengthening of economic co-operation between India and China should also be reviewed in the context of emerging trends in regional economic integration in different parts of the world. Also, the two countries can pool in their respective resources for strengthening their competitiveness in third countries.

Strengthening Cooperation between Government Agencies and Institutions for Promoting Trade and Investment

Customs cooperation

- 5.3 For strengthening customs cooperation, effort should be made to improve customs clearance efficiency, which facilitates trade and investment, and reduces costs for the enterprises.
- 5.4 First, to the extent possible, a uniform customs clearance system based on international standards should be gradually implemented across all important ports in both the countries, with the aim of reducing randomness and element of discretion in customs and clearance procedures.

- 5.5 Second, the two sides should simplify clearance procedures at ports and customs, and improve handling efficiency. The two countries should also cooperate in establishing paperless clearance procedures through automation and computerization to speed up customs clearance. With this aim in view, both countries should cooperate in the ongoing negotiations on Trade Facilitation in WTO.
- 5.6 Third, the *bilateral Agreement on Mutual Administrative Assistance and Co-operation* in Customs Matters should be concluded at the earliest. The two sides should hold negotiations, create favorable conditions and reach consensus as soon as possible.
- 5.7 Fourth, for ensuring transparency in related laws and regulations adopted in both countries, the JSG emphasizes on the need for regular exchange of information between customs authorities of both the countries.

Cooperation between quality inspection organizations

- 5.8 China and India have initiated cooperation in the field of product quality supervision as well as inspection and quarantine. In January 2002, Chinese General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and Indian Ministry of Agriculture signed the *Memorandum of Understanding on the Implementation of Plant Quarantine Measures*. In June 2003, the *Protocol on Sanitary Condition of Indian Mangos Exported to China* was signed between AQSIQ of China and Indian Ministry of Agriculture. China is also promoting total electronic handling of inspection and quarantine procedures, as well as, electronic swift checking system and online approval procedures in ports. India has also proposed setting up of a Joint Working Group to implement the provisions of the MOU signed in January 2002.
- 5.9 In order to facilitate bilateral trade, it is suggested that China's AQSIQ and the concerned institution of India set up a bilateral dialogue mechanism under the TBT Agreement and the SPS Agreement of the WTO for cooperation and exchanges on technical measures that affect trade in industrial and agricultural products and food grains.
- 5.10 First, transparency should be enhanced. The two sides should maintain communication with each other while formulating and revising their technical trade measures and regulations, technical standards and assessment procedures related to health and safety. WTO/TBT State Notification and Consultancy Center of China and the WTO/SPS State Notification and Consultancy Center of China should maintain constant contacts with their Indian enquiry points, establishing a mechanism of regular mutual visits and exchanges. The two sides should hold seminars and short-term training courses. The two sides should also communicate

to each other, details of the agencies involved in formulation procedures and status of implementation of their respective technical regulations and standards.

- 5.11 Second, cooperation in such fields as harmonizing standards and conformity procedures should be strengthened. The two sides should strengthen cooperation and consultation in coordinating, wherever feasible, their national standards so as to speed up clearance of goods. The two sides should cooperate to improve standardization, certification regulations and qualification evaluation⁸, as well as promote coordination between government departments, implementing institutions, and supervision authorities of each country.
- 5.12 Third, it is proposed that the two sides should strengthen their cooperation in food safety, inspection and quarantine of animals and plants, as well as, their processed products. They should establish a mechanism for cooperation on health quarantine and inspection. Conclusion of China-India Pre-Shipping Examination Agreement will be helpful for the elimination of non-tariff trade barriers, as it will effectively form a Green Channel for commodity flow.

Cooperation in banking sector

- 5.13 Regular dialogue and exchanges between the Central banks, the commercial banks and the EXIM banks of the two countries should take place.
- 5.14 Banks of each country should establish offices and affiliates in the other to provide financial services, such as, account settlement, financing, and information consultation for the enterprises of the two countries.
- 5.15 The JSG recommends that demands for banking services for trade, investment, travel and other forms of transactions may be periodically assessed, and appropriate tie-up arrangements may be made between Indian and Chinese banks.
- 5.16 Exchanging and sharing of experiences between the banks of the two countries can help in furthering financial sector reforms in each country besides improving services and operational efficiency. India's experience in the field of financial sector reforms including supervision, payment systems (e.g., the RTGS mechanism) and retail banking would be of relevance to the on going financial restructuring in China. China's experience in financing infrastructure would be of help to India.

⁸ Qualification evaluation procedures required by technical regulations or standards, such as sampling, examining and inspecting; evaluation, verification and qualification guarantee; Such procedures as registration, accreditation and approval.

Exchanging Economic and Trade Information

- 5.17 Transparency through mutual sharing of information is the key to success of bilateral commercial and economic relations. The JSG recommends that the process of sharing information on market, legal environment, trade policies, investment opportunities between the relevant government departments and trade bodies may be institutionalized. The website addresses of the relevant agencies may be communicated and the information on the websites be up-dated regularly. Authorities on both sides should take initiatives to open trade body offices, undertake training of industry/trade bodies and hold trade exhibitions.
- 5.18 The JSG recommends that a permanent exhibition facility may be set up in Beijing and Delhi, where companies from either country could display their products. The numbers of such exhibition facilities could be increased subsequently. The terms and conditions of space allocation could be negotiated between relevant institutions of the two countries.
- 5.19 The chambers of commerce and trade of both countries should play an important role in areas such as provision of market information, coordinating the relationship between enterprises and the government as well as among different enterprises. The two countries should increase the role of industry organizations and strengthen cooperation with particular attention to market information. For instance, the development of the textile industries of both China and India plays a significant role in boosting their economy and employment generation. The textile industries of the two countries should therefore reinforce consultations, as well as, establish cooperative mechanisms to hold joint research and coordinate their responses to the problems of the industry.

Enhancing Cooperation in Agricultural and Rural Development

- 5.20 Both China and India are the leading producers of a large number of agricultural commodities. The agriculture sector in both the countries is highly diversified in terms of agro-climatic conditions and crop varieties. About 60% of each country's population is in the rural areas. The two countries have accumulated rich experience in agriculture and are engaged in increasing agricultural productivity, finding solution to rural poverty and providing food security. As both India and China are currently in the same stage of development, strengthening of exchanges and cooperation between the two countries in the area of agriculture and food security will be of great significance.

- 5.21 China and India should enhance agricultural cooperation in following areas:
- 5.22 Exchange of information about policies and experiences in rural development. China has made significant achievements in adopting the household contract responsibility system, developing TVEs and transferring rural labor force to industry and service sectors. China has evolved a system of “food security”, covering food grains, sugar and some of the oilseeds. India has made outstanding achievements in the “Green Revolution”, “White Revolution” and “Blue Revolution”, and in dissemination of information in rural areas and in provision of infrastructure. Also, India has achieved significant successes in developing an elaborate network of grain reserves and procurement and distribution system. The farming practices in India are increasingly being mechanized.
- 5.23 Rural development is a major area of policy concern in both the countries. Both China and India can benefit by sharing their policy approaches and experiences, including agricultural development policy, building of rural social security system, agricultural science and technology, reducing rural poverty and unemployment, rural financing as well as pricing, marketing and distribution networks. The JSG recommends that the respective authorities may organize joint seminars and workshops devoted to rural development, focusing on the institutional set-ups (including government and non-governmental agencies, donors, and credit-delivery mechanism) in the two countries.
- 5.24 Enhancing personnel exchanges. The personnel of agricultural departments, agricultural economic organizations and research institutions of the two countries should pay more visits to each other to exchange their experiences in agricultural development, bilateral and multilateral trade status and agricultural research. They could also jointly organize training courses. Colleges, universities and research institutions of the two countries can hold seminars and academic conferences, and conduct exchanges and joint research in innovation and management in agricultural science and technology, bio-technology, anti-insect measures, industrialization and informatization.
- 5.25 Strengthening agricultural technology cooperation. Both China and India have set up nationwide agricultural technology R&D system networks and are comparatively strong in this field. They should encourage mutual sharing of such information on agricultural bio-technology, cropping and farming practices and techniques of agricultural extension, use of high-yielding varieties of seeds, water management practices, farming practices - both under dry land and irrigated systems, mechanics of agricultural extension work, and methods of soil conservation.

- 5.26 Strengthening cooperation in the prevention and curing of plant and animal epidemic diseases, China and India should strengthen coordination and information exchange in the prevention and control of epidemic diseases.
- 5.27 The two countries need to identify the areas of complementarities in trade between the two countries. There is scope for export of agricultural products, such as, rice, wheat, sugar, oil seeds (sesame seeds), oil meals (of soybean and rapeseed), oil (groundnut and castor), fruits and vegetables, milk and milk products, processed food, and plant process machinery in food processing sector from India to China.

Cooperation in Electrical and Electronic Sector

- 5.28 There is considerable potential for cooperation in various industrial sectors between China and India. Such industries are required to be identified and possibilities of cooperation explored further. Cooperation in electrical and electronic sector is an illustration in this regard.
- 5.29 India has strong competitive advantage in software and services related to electrical machinery products. China on the other hand has established an internationally competitive electrical machinery manufacturing industry. It has accumulated unique experience in developing this industry in the wake of globalization through introduction of foreign investments. Cooperation between the industries of the two countries will further improve their competitiveness in the global market. There is tremendous market potential for Chinese and Indian electrical machinery products. In 2003, China's import of electronic products reached 100 billion US dollars. India is regarded as a market with high demand growth and, therefore, one with good potential. With economic development and continuous increase of per capita income, India might become the largest market for home appliances, electronics, information and telecommunication equipment, as well as, a major manufacturer of these products. The following is suggested:
- 5.30 Bilateral trade should be further developed. The intra-industry trade in components and parts has expanded rapidly in recent years, with the removal of trade barriers and reduction in transport costs. Potential areas for co-operation between the two countries include automobile and engineering goods manufacturing, telecommunications, home appliances that have witnessed rapid growth in the recent period. Respective industry bodies in both countries may be encouraged to identify potential areas of trade in components and parts for mutual benefit.

- 5.31 Enterprises from both countries should utilize their capabilities to strengthen cooperation in developing electrical machinery industry. First, electrical machinery manufacturing enterprises from the two countries should cooperate to conduct joint R&D activities on new products. The products should target the markets of the two countries and the international market. Second, China and India should increase their mutual investments and thereby promote the manufacturing of spare parts with high technical content and develop their export capacities in the global market.
- 5.32 It is suggested that enterprises of the two countries should be encouraged to play a greater role in the formulation and exchange of technology standards, which would enhance bilateral trade and cooperation.
- 5.33 Exchange of information on industrial development and personnel interaction should be strengthened. India has considerable advantage in technology R&D and human resource costs besides having established a system for promoting software industry development and training of personnel. China has accumulated a lot of experience in developing its manufacturing industry and in attracting FDI into electronics and spare parts manufacturing sectors. Owing to their unique experiences, India and China can strengthen exchange of experience and personnel in such areas as industrial policies, management modes and improvement of industrial R&D and technological levels to develop a win-win situation.

Project Contracting

Cooperation between India-China in Project contracting has great potential

- 5.34 The fields of infrastructure, construction, manufacturing and consultancy offer commercial opportunities to the business and industry of the two countries which can be exploited.
- 5.35 Construction companies from India and China have pointed out that it would be mutually beneficial to enter each other's market through collaboration, especially in areas such as road construction, ports, railways, hydro power projects etc.

Suggestions on promoting India-China cooperation in project contracting and utilisation of human resources

- 5.36 Strengthening exchange of experience. The policies and administrative experience of the two governments in encouraging enterprises to contract overseas projects and promoting utilisation of human resources have yielded good dividends. Exchange of experience between the two

countries in this area, including in the facilitation of resolution of labour disputes, will be helpful to both.

- 5.37 The two governments should encourage their enterprises to contract projects in the other. The two governments should facilitate the development of bilateral project contracting, through exchange of information in general concerning project contracting, grant of export credit, and information exchange on risk mitigation measures.
- 5.38 Engage in joint project contracting and coordination in project exports in a third country market. For project contracting in a third country, the enterprises of China and India can jointly undertake projects and make full use of their respective strengths. The two countries can learn from each other's experience in export of human resources in order to enhance the protection of benefits and rights to them.
- 5.39 Chinese and Indian enterprises should strengthen cooperation in the field of outsourcing in manufacturing and services. Since India has become the largest player in service outsourcing, and enjoys advantages in project contracting and management capabilities, and China has great potential in undertaking projects internationally, Indian and Chinese enterprises can cooperate in contracting outsourcing business in manufacturing and services for mutual benefit.

Cooperation in Energy Resources

- 5.40 Both China and India are short of energy resources, particularly hydrocarbon based resources. With the rapid economic development of the two countries, the energy shortage problem is becoming increasingly acute. Ensuring energy supply and improving the efficiency of energy utilization are the key issues faced by both countries. They are also actively engaged in seeking energy sources in other countries to secure their energy security.

China's strategy and policy of energy resources development

- 5.41 To resolve the problem of energy shortage in the course of economic development, the Chinese government formulated an energy resources development plan on the basic principle that energy supply should be based on the domestic production and imports at an appropriate level, and that clean energy has priority in production and utilization. The main targets of energy resources development are: to regulate the energy structure and improve the efficiency of energy utilization with the objective that the total energy supply is sufficient for domestic economic and social development in general; to establish an internationally competitive system of design, production, construction and management for development and

utilization of energy resources, and to achieve coordinated development of energy, economy and environment.

Proposal for India-China Cooperation in Energy Resources

- 5.42 Cooperation in development of nuclear energy: By 2008, the annual installed capacity in India is likely to increase from 2700 megawatts at present to 6700 megawatts. Both India and China are rapidly developing their electricity production by nuclear energy to meet their large electricity requirements. Pressurized Heavy Water Reactors (PHWRs) and Light Water Reactors (LWRs) are being developed for electricity generation in both the countries. Both the countries have important position among developing countries in nuclear energy applications. There are similar interests in development of advanced technologies for electricity production. Because of their rapid development and large population, both India and China, accord high priority to electricity generation using nuclear energy with a view to reduce potential carbondioxide emission. The two countries can cooperate in the field of nuclear energy including R&D in a mutually beneficial manner.
- 5.43 The two countries should encourage their enterprises to work together to exploit the petroleum and natural gas resources in third countries. The combined energy requirements of India and China would exceed those of the EU and Japan by 2020. A joint India-China bid in third countries will make such bids globally powerful and go a long way in ensuring energy security. The JSG recommends that relevant Ministries of the two countries could consider establishing an institutional mechanism aimed at promoting joint efforts in sourcing energy supplies, including Petroleum and Natural Gas in third countries as also the commercial exploitation of other energy resources in third countries.
- 5.44 The two countries can cooperate in developing the technologies for renewable resources. Both India and China are developing and promoting the application of renewable resources including wind energy, solar energy, tide energy and bio- energy, etc. The two countries can jointly develop the new energy technologies through cooperative projects.
- 5.45 It is recommended that the relevant governmental departments should conduct research, formulate policies and take measures to encourage Indian and Chinese enterprises to strengthen their investments and cooperation in mining of such mineral resources as iron ore, coal and bauxite.
- 5.46 The two countries can exchange experience in energy management. Both India and China are reforming their domestic energy management systems, relaxing state controls and trying to be more open to both the

private and foreign investors. The two countries should conduct more exchanges and share useful experiences in establishing a more efficient energy management system.

Management of Economy

Urban Development and City Management

- 5.47 In the light of outstanding problems in urban development in both countries, and the launch of National Urban Renewal Mission by India, the two countries can carry out cooperation and exchanges in the developmental priorities of common concern, including urban development policies, city planning, urban traffic management, construction and financing of urban infrastructure and public health facilities, construction of urban communities, solutions to the urban poor population problem, establishment of urban emergency measures and early warning systems, user charges, local resource mobilization, institutional and administrative set-ups, incentive patterns, public-private co-operation etc.
- 5.48 The JSG recommends that the concerned ministries of the two countries should make the necessary institutional arrangement for sharing information on policies and implementation of urban development.

Poverty relief and social security and pension insurances

- 5.49 The JSG observes that India and China are midway through a demographic transition and are placed in a favorable position on the economic front due to their relatively large working populations. An inevitable consequence of this trend would be greater fiscal pressures through higher government spending on social security, health care and other welfare programs for the elderly accompanied by lower tax buoyancy consequent to falling proportions of the productive labor force. India and China should establish a dialogue mechanism between the governments and academic circles, so as to benefit by sharing information on their policies and approaches regarding aging populations, healthcare, pension and social security systems etc. Joint effort could be made to work out ways in which developing countries, with large populations, would disburse equitably, benefits of economic development to their populations, and improve social stability and harmony.

Development of SMEs

- 5.50 Strengthening cooperation and exchanges in the area of development experiences vis-à-vis SMEs could be of great significance to the two countries. Governments should play an active role in pushing forward China-India cooperation and exchanges in this area. First, the successful

experiences in the development of SMEs should be shared, including government policies, management system, laws and regulations; second, the governments should create favorable conditions for the SMEs of the two countries to cooperate with each other; for example, by holding some exhibitions and information briefings for the products of SMEs so as to encourage the enterprises to communicate and cooperate with each other. Third, there is immense scope for Indian companies to improve productivity by forming alliances with their Chinese counterparts for establishing energy efficient and environment friendly projects, including in the area of biotechnology. Fourth, the two countries could consider co-operation in knowledge-based industries.

Disaster Management

- 5.51 Both India and China suffer frequent natural disasters. They should, therefore, strengthen cooperation and exchanges in the field of disaster management. To begin with, cooperation in human resources should be intensified, especially in the field training of personnel and arranging joint workshops in related areas, to improve disaster management capabilities. Secondly, sharing of experience and knowledge of disaster relief and disaster control should be strengthened, especially in natural calamities, such as, floods, earthquakes and tsunamis. Thirdly, the two countries should exchange experiences in such fields as the cultivation of disaster-prevention and disaster reduction awareness. Fourthly, China and India should share technologies and exchange experiences in the construction of early warning and communication systems for disaster management.

Exchange of Experiences between Regulatory Bodies

- 5.52 There are considerable synergies for sharing of experiences between the regulatory bodies of the two countries through close co-operation. These may include exchanges involving systems, modes, efficiency and functions of the managerial institutions. In the Joint Declaration signed between China and India in June 2003, it was agreed that, “the two countries will launch a financial dialogue and co-operation mechanism to strengthen the dialogue and coordination in this sector.” The JSG recommends an early signing of the MOU on the establishment of India-China Financial Dialogue, commencement of the dialogue, and fulfillment of the mandate as provided in the Joint Declaration.
- 5.53 There is already a proposal for co-operation between the Ministry of Consumer Affairs of India and the Chinese Securities and Regulatory Commission (CSRC), and the CSRC and the Securities and Exchange Board of India (SEBI). The JSG is of the view that similar co-operation mechanisms should be extended to other regulatory bodies as well.

Remote Sensing Applications

- 5.54 Co-operation in remote-sensing applications, including sharing of data/information would be of immense benefit to both countries. The JSG notes that this process has already started with the concerned agencies of the two countries cooperating in this area.
- 5.55 To meet the needs of national security and economic development, the two countries could further strengthen cooperation in this area. For example, the United Nations and China's Remote Sensing Center of the Ministry of Science and Technology have conducted international training programmes and trained many professionals from the developing countries in Asia and the Pacific region including those from India. The two countries may identify priority areas of cooperation and strengthen technological cooperation by promoting exchanges and training of personnel.

Water Resource Management

- 5.56 The shortage of water resource in China and India is becoming more and more serious. First, the per capita water resource is very small; second, the water resource is distributed extremely unevenly; third, water resource is polluted; and fourth, the utilization efficiency of water resource needs improvement.
- 5.57 China and India can share experience and strengthen cooperation in the field of water management, including drainage area management; sharing of experience in developing new technologies and new methods in saving water. Sound management of water resources assumes critical importance for sustainable agricultural development, since both the economies are susceptible to the vagaries of nature. Both the countries should share experiences in water management, including storage and conservation mechanisms, use of irrigated land, distribution channel, and fixation of user charges.

Exchanges between Research Institutions on Problems of Common Interest

- 5.58 The JSG is of the view that regular exchange of ideas and professionals between counterpart research institutions of China and India will go a long way in enhancing their development application capabilities.
- 5.59 The two governments should encourage research institutions to utilize different methods in carrying out international exchanges in all fields and strengthening cooperation in such fields as science, culture, education, policy research etc. The academic organizations of India are well-

endowed, and have active international exchanges. The academic and research institutes of the two countries should strengthen exchanges and cooperation with each other. The relevant departments of the two governments should identify some priority areas to start exchanges and cooperation with focus on the projects of common interest. One specific area is the application of biotechnology, particularly for developing high yield crop varieties and other forms of genetically engineered products. China has a highly developed biotechnology industry with operational costs well below those of the industrialized countries. Shanghai has emerged as the R&D hub of many US based biotech giants. India's biotechnology sector is fast growing and is more diversified. Indian and Chinese biotech sectors have the potential for bilateral cooperation through joint ventures and intra-industry trade. Other areas could be collaborative research studies in farming practices, food processing, agro-marketing and supply chain management.

- 5.60 The bilateral cooperation could be carried in various ways, including through joint studies in research institutions, exchange of research achievements, and exchange and training of research staff.

Chapter 6

China-India Regional Trading Arrangement

- 6.1 Previous chapters of this Report have examined the potential of trade and investment relations between China and India and have identified other sectors of fruitful economic cooperation and have outlined policy measures to remove barriers for exploitation of this potential. This chapter examines the relevance of a Comprehensive Economic Cooperation Agreement (CECA)/Free Trade Agreement (FTA) between China and India to further strengthen their economic integration.
- 6.2 JSG considered the following points while examining a case for India-China CECA/FTA:
- 6.3 Emergence of regionalism as a world-wide trend: Regionalism was the most striking trend of the 1990s with the emergence of Single European Market in European Union in 1992 and North American Free Trade Agreement (NAFTA) in 1994. These Regional Trade Arrangements (RTAs) pursued a deeper type of integration covering preferential free trading arrangements complemented by strong rules of origin and mobility of capital (and some times even labour) across the region to facilitate rationalization of industry across the region on a most efficient basis so as to exploit the economies of scale and specialization and strengthen their competitiveness. The level of economic integration was progressively deepened and coverage of RTAs expanded over time. As a result of the emergence of these RTAs, over 50 per cent of the world trade is now conducted on preferential and not on MFN basis. Therefore, any region can ignore formation of its own scheme of regional integration only at its disadvantage as its exports would face discrimination against those of trade bloc partners. Asian countries, generally followed multilateralism faithfully have now recognized the potential of regional trade arrangements as is clear from numerous FTAs that are at different stages of negotiation in Asia. Furthermore, in so far as it leads to trade liberalization, regionalism by developing countries should be viewed as a building block of multilateralism rather than a stumbling block.
- 6.4 Increasing emphasis on RTAs in both China's and India's Trade Policies: Both countries feel that RTAs complement multilateral trade system. China is negotiating FTAs with 8 countries/regional groupings and India is negotiating CECA/PTAs with 7 countries or groupings. In particular, China is evolving FTA with ASEAN and India is negotiating CECA with ASEAN. China is studying FTAs with Korea and Japan, while India is studying CEA with these countries. India is evolving CECA with Thailand and Singapore.
- 6.5 RTAs also have the potential of bringing around efficiency-seeking industrial restructuring enabling enterprises from the partners to reap benefits of economies of scale and specialization by rationalizing production across the borders.

- 6.6 This process of industrial restructuring leads to a lot of investment flows between the partner countries and hence could help in exploiting the potential of intra-regional investments. Chinese and Indian enterprises are now emerging as significant sources of outward investment. A bilateral trade arrangement between China and India will also increase their attractiveness for third country FDI by enlarging the markets. More companies will be willing to invest within the integrated market as market risk and uncertainty is minimized.
- 6.7 Both China and India are bringing about progressive tariff reductions and other trade policy reforms.
- 6.8 The case for a China-India RTA essentially rests on whether the partner economies have complementary structures and advantages. Chinese economy is highly manufacturing oriented (share of manufacturing over 50% of GDP); Indian economy on the other hand is dominated by services (which account for more than half of GDP). Even within the manufacturing there are complementarities as is clear from rapid expansion of mutual trade. Chapters 2-4 of this report have identified the patterns of complementarities between the two economies in different sectors.
- 6.9 India and China have exchanged trade preferences under the framework of the Bangkok Agreement. However, being based on a positive list approach, narrow margins of preferences, and inability to address non-tariff barriers, the Bangkok Agreement is unlikely to realize the full potential of China-India partnership.
- 6.10 In view of these complementarities, there is a substantial potential for trade creation. A partial equilibrium analysis⁹ suggests that the potential of bilateral trade between the two countries is substantial
- 6.11 Deeper integration between the two economies will facilitate mutual learning. In particular, India could learn from China in promoting industrialization and China learning from India in development of service industries. It will also foster technological learning and capability building by providing to their industry much larger markets to recover their investments.
- 6.12 In the light of the above considerations and also taking into account the long-term economic relationship between the two countries, the JSG recommends the following:

⁹ Based on a set of assumptions.

- 6.13 Evolving a China-India Regional Trading Arrangement comprising:
- a. Trade in goods and services, and investments;
 - b. Identified understandings for trade and investment promotion and facilitation; and
 - c. Measures for promotion of economic cooperation in identified sectors;
- 6.14 The JSG recommends that the two Governments appoint a Joint Task Force to study in detail the feasibility of, and the benefits that may derive from, the China-India Regional Trading Arrangement referred to in paragraph 6.13 above and also give recommendations regarding its content.

Chapter 7

Recommendations for Development of India-China Trade & Economic Cooperation (Summary of Recommendations)

India-China Trade in Goods

Consultation Mechanism

- 7.1 It is recommended that the existing mechanism of the Joint Economic Group, co-chaired by Minister of Commerce and Industry of India and Minister of Commerce of PRC, be fully activated, with meetings convened annually in principle. Likewise, the existing mechanism of Joint Working Group (Director General/Joint Secretary level) under the JEG, should meet at least twice in a year. The JEG oversees smooth development of trade relations between the two countries. The JWG will administer the work related to the JEG between the meetings of the JEG and play the role of channel and bridge to facilitate the resolution of other trade and market access related issues under the various joint consultation groups. The new structures under the joint consultation mechanisms are proposed in the following paragraphs¹⁰.
- 7.2 The JSG recommends that the JEG may be convened as soon as possible to consider, inter-alia, the JSG report. The various Joint Task Forces should be set up in order to arrive at appropriate mutual agreements within a stipulated period.

Transparency and Reconciliation of Trade Data

The JSG recommends that:

- 7.3 A team of experts should be established, on the two sides, to ensure that all policies and administrative rules, regulations and notifications, which impact upon bilateral trade, are published and made widely available on a regular basis.
- 7.4 Appropriate authorities/agencies on both sides exchange trade data on a regular basis and if considered necessary establish a Joint Task Force to reconcile the data.

Customs Procedures

The JSG recommends that:

- 7.5 India and China should negotiate a customs cooperation and mutual assistance agreement as early as possible to improve customs supervision efficiency through bilateral cooperation and promote trade facilitation.

¹⁰ The schematic presentation of the joint consultation mechanism is given in the Appendix – Figure 2A.1.

- 7.6 A uniform system of customs valuation, duties and documentation may be evolved across all ports of entry in both the countries.
- 7.7 Procedures for handling goods at ports and customs clearance may be simplified and made more efficient.
- 7.8 In both b) and c) above there could be a particular focus on valuation and clearance of commodities of particular interest to India and China.

Standards, Certification and Regulatory Practices

The JSG recommends that:

- 7.9 In line with the spirit of the “Principle of National Treatment”, technical standards should be applied uniformly across imported and domestic products.
- 7.10 Both countries should prepare and implement conformity assessment procedures to ensure parity of market access conditions for foreign and similar domestically produced commodities.
- 7.11 A Joint Task Force should be set up within six months to harmonise standards in different areas. Based on the harmonization of standards, the JTF should facilitate the relevant agencies to work towards MRAs (and corresponding identification of Conformity Assessment Bodies) to be negotiated in phases.
- 7.12 Setting up of Food Inspection mechanism: A JWG between the Ministry of Agriculture and China AQSIQ should further promote the cooperation on SPS. A JWG should be established to (a) administer the MOU signed by the two countries in January 2002, and (b) to discuss other issues related to quarantine and food safety. The aim of JWG should be to work towards “Mutual Recognition Agreement” (MRAs) in the field of agricultural products, animal husbandry, dairy and food products. For the implementation of the MRA, the two sides could designate respective Conformity Assessment Bodies (CAB).
- 7.13 China should expedite the negotiation of the Phytosanitary Protocols in respect of the 14 fruits and vegetables with increased efficiency, with the objective of concluding SPS Protocols and certification procedures.
- 7.14 A consultation mechanism for WTO/TBT, should be set up by China AQSIQ and related Indian government department. Under this mechanism, different working groups need to be established in the areas such as agriculture, industry, standard, conformity assessment, etc.

- 7.15 China and India should strengthen the exchange and cooperation in the field of SPS on animals, plants and other products as well as harmonise the conditions for SPS. Besides, it is necessary to strengthen prevention and control of epidemic disease in the border areas through signing related agreements.

NTBs

The JSG recommends that

- 7.16 A Joint Task Force should be set up to identify and address various Non-Tariff Trade Barriers existing in bilateral trade.
- 7.17 India and China should in particular promote cooperation in fisheries and dairy industry by eliminating bilateral trade barriers.
- 7.18 Full details of technical standards should also be made easily available.
- 7.19 A PSI (Pre Shipment Inspection) Agreement should be concluded between India and China to facilitate movement of goods.

Rules Of Origin

The JSG recommends that:

- 7.20 India and China should ensure that their rules of origin are transparent and are defined such that they do not have any restricting, distorting or disruptive effects on bilateral trade. A Joint Task Force¹¹ should be constituted to examine ROO related issues.

Improved Infrastructure Links

The JSG recommends that:

- 7.21 Increased frequency of direct shipping routes, reduced costs of transportation and expansion of air cargo facilities between the two countries needs consideration.
- 7.22 Direct banking links and bilateral confirmation of L/Cs by Exim Banks of India and China and other issues of cooperation in this field may be strengthened.

¹¹ See Figure 2A-1

- 7.23 Direct flight links between India and China may be increased to at least one flight a day. Freight flights of viable frequency may also be introduced between the two countries.

India-China Trade in Services

Transportation Services

- 7.24 The JSG recommends that India and China should ensure that their ports facilitate easy movement of goods. With increased movement of goods and passengers between India and China, gradual increase in shipping lines and intensity of marine transportation, as well as, increase in flights (including direct flights) may be undertaken.
- 7.25 The JSG recommends that the two countries should work closely to improve logistic services and reduce delays at ports. Lowering of costs and expansion of shipping and air transport facilities could enhance competitiveness of this sector in the two countries.

Tourism and Related Services

- 7.26 The JSG recommends that travel and tourism industry in each country should establish its presence in the other, and develop attractive tourist packages and products keeping in mind the consumer psyche of each country's tourists. The governments of both countries could provide greater facilitation for enterprises of the other to start business operations in the field of tourism services in domestic market, set up tourist offices in each other, try to promote each country's cuisine in the other through exchange of chefs, and set up joint promotion councils in tourism, all of which can greatly promote the development of the tourism sector. The two countries could also work together to promote MICE and health tourism.

Construction and Consultancy Services

- 7.27 The JSG notes that the fields of infrastructure, construction, manufacturing and consultancy offer commercial opportunities to the businesses and industry of the two countries, which can be exploited. The construction and consultancy companies of India and China could enter into joint ventures, consortium, etc. and together leverage their complementary skills to enter third country markets.

Environment Services

- 7.28 Under China's WTO accession commitments, with the exception of environment quality supervision and pollutant resource inspection, foreign providers are permitted to conduct environment services in the form of joint ventures, which could be majority share-holdings. Therefore, to satisfy the needs of development of environment service market of the two countries, enterprises in the environment sector of both sides should try to expand many folds the trade in environment services.

Information and Communication Technology

- 7.29 The JSG recommends that the two countries should cooperate to use their core competencies in hardware and software respectively to their mutual benefit and also to increase their share of world trade and gain greater access in third country markets. Industry association such as NASSCOM may closely interact with its counterpart organization in China to promote co-operation in this sector. Both countries should work together to enforce copyright and reduce piracy. The software enterprises of both countries can strengthen their status in the global market by having joint research projects, exchange of technical personnel and cooperation in training. The JSG also recommends that the issue of high bilateral call charges should be discussed between government bodies of the two countries.

Health Services

- 7.30 The JSG recommends that the two sides can promote health services trade through exchange of medical care personnel, cross-border diagnosis and mutual investments, and training of personnel of one country in the other. Since China allows the establishment of joint venture hospitals and clinics, India could become an important exporter of medical care service to China, as there will be greater demand for high-quality medical personnel who could provide good services and interact easily with foreigners visiting China for business and tourism.
- 7.31 The Health Ministries of the two countries should work closely to initiate more training and collaborative research. To enhance trade in traditional medicines, India and China should recognize each other's medical systems. They should collaborate in traditional medicines through training, workshop, exchange of specialists, etc.
- 7.32 India and China can work together to create health facilities to attract patients from other countries.

Accounting, Auditing and Consulting Services

- 7.33 Since there is a large demand of these services in China and India has the human resource advantage in these areas, and also since China has committed to open these areas to the outside world under the multi-lateral trade system, enterprises of India can provide such services to China through cross-border supply or commercial presence.

Audio-visual and Entertainment Services

- 7.34 The JSG notes that because of significant scope for collaboration in the audio-visual sector, the respective ministries of both the countries should encourage co-production of films, documentaries, etc. The JSG recommends that India and China sign a co-production agreement. They can promote trade in the field of audio-visual and entertainment services by facilitating the entry of films into each other's market and, by strengthening exchange of film and video makers to sensitise them to the demands of each other's markets.
- 7.35 Indian film producers can explore shooting films in some not so well known but scenic and cost-effective locations in China. Indian studios can provide post-production facilities to Chinese films. Governments of the two countries should encourage theatrical display of Indian movies dubbed in Chinese in China and Chinese movies dubbed in English and Hindi in India. Both China and India should work closely to reduce piracy.

Education Services

- 7.36 To promote bilateral education services, the JSG recommends that the two governments should fully implement the bilateral visa agreement and discuss further means to promote people-to-people exchanges including exchange of students. The Ministry of Human Resource Development, India and Ministry of Education, China should facilitate collaboration between the research institutes of the two countries. Exchange of students can be facilitated through more scholarships. Exchange of teachers will be mutually beneficial and can be facilitated through intergovernmental agreements. In India, there is a requirement of Chinese speaking teachers while in China there is a demand of English speaking teachers. Governments of the two countries can facilitate the cross-country movement of qualified teachers in such areas. Restrictions should be removed from offering education and training on the Internet.
- 7.37 India and China can also explore the possibilities of co-operation in R&D, in areas such as biotechnology, medicine, non-conventional energy, computer software, etc. Exchange of scientists and technical persons between the two countries would facilitate such co-operation.

Financial Services

- 7.38 The EXIM Banks of eight countries including India and China have signed the Multilateral Letters of Credits Confirmation Agreement to promote interregional trade and economic co-operation. The JSG recommends that within this multilateral framework India and China can sign a bilateral agreement on confirmation of Letters of Credits (LCs).
- 7.39 A mechanism to further financial dialogue between India and China is being established. The JSG recommends that through this dialogue, the two countries should identify additional opportunities to promote business in the financial sector. The Central Banks of the two countries can facilitate the opening of branches of Indian banks in China and Chinese banks in India.

Advertising Services

- 7.40 The JSG recommends that government and industry associations of the two countries should encourage workshops, seminars, etc. between the advertising companies of the two countries, which will promote collaboration in this sector. India can provide English-speaking trained manpower in this sector.

Compilation of Statistics Related to Trade in Services

- 7.41 The statistics for trade in services is sourced from the BOP statistics of the IMF. There is no disaggregated data on trade flow in services country-wise. The JSG recommends that India and China should endeavour to cooperate to compile the data on trade in services between the two countries.

Mechanism for Certification of Qualifications of Services Providers

- 7.42 The JSG recognises that the movement of professionals between India and China is restricted by lack of recognition of qualifications. Professions of architecture, health, IT and accounting are well regulated in India by the regulatory bodies. The JSG recommends that both India and China should work towards establishing mutual recognition agreements between the regulatory bodies of the two countries in these regulatory professions. In respect of non-regulated professions, each country should make transparent its regulations on qualification requirements and procedures, technical standards and licensing requirements. The two countries should periodically discuss these issues to facilitate services trade in Mode 4.

Measures to Facilitate Movement of People

- 7.43 The JSG recognizes that liberalizing the temporary movement of people would significantly enhance economic linkages and trade in services between India and China. It recommends that both the countries should fully implement the bilateral visa agreement of June 2003 so that movement of people takes place as per the commitments made in it. The JSG also recommends that the two countries should discuss measures to further liberalize the visa regime, especially in the case of business visitors, professionals, tourists, patients and students. The conditions for granting multiple entry visas should be made more liberal than what they are at present.

Role of Intermediary Organizations

- 7.44 The JSG recommends that the significant role of non-governmental intermediary organizations, such as industry associations, in gathering data, providing information sharing platforms and in strengthening communication between the government and enterprises, should be encouraged.
- 7.45 India and China should also encourage and facilitate building of understanding and trust, collaboration, and joint ventures, between the companies of the two countries. This can be done through organization of workshops, seminar, trade fairs, etc. The industry associations of both countries can collaborate and play an important role in this.

Connectivity

- 7.46 The ease and cost of connectivity enhances efficiency of business transactions by the entities of the two countries. The JSG recommends that the two countries take significant steps to enhance telecom connectivity and bring down the costs of telecom tariff between themselves. The JSG also recommends better air connectivity and the related air management departments could conduct further discussions on the possibility of amending the bilateral air services agreement including increase in capacity entitlements, more points of call, increase in the number of intermediary and beyond points, cargo traffic rights, multiple designations.

Investments

Areas of Future Investment

- 7.47 The JSG notes that Chinese enterprises may find fruitful opportunities for investment in India in areas such as power generation projects and other infrastructure sectors, manufacture of electronic hardware, food processing etc., for which there is a growing market in India. There may be fruitful opportunities for Chinese enterprises to manufacture garments in India for export to the EU as GSP benefits will be phased out for Chinese garment exports. Indian enterprises may also find attractive investment opportunities in China in areas such as pharmaceuticals, auto components, light engineering goods, automotives, financial services, besides, IT software and training. Chinese and Indian enterprises may find mutually rewarding opportunities of pooling their complementary strengths by building consortia for jointly undertaking third country projects and investments. Such opportunities may exist in design engineering and construction industry and other heavy industries. They could also consider entering into strategic alliances or joint ventures for exploiting their synergies for mutual benefit. IT industry provides many such opportunities but there may be opportunities in other areas such as biotechnology, especially in applications relating to agriculture and health.

Investment Facilitation and Bilateral Framework for Investment

- 7.48 The JSG notes that India and China have already signed an Agreement on the Avoidance of Double Taxation in July 1994. A Bilateral Investment Promotion and Protection Agreement (BIPA) is under negotiation. The JSG recommends that a Bilateral Investment Promotion and Protection Agreement (BIPA) should be signed on the basis of the principle of most favored nation (MFN) and national treatment (NT) without prejudice to the laws and regulations of each country.

Transparency and Information

- 7.49 To improve transparency of regulations and policies, the JSG recommends that links between the websites of the two countries concerning foreign investment laws and regulations, policies and market information should be established.
- 7.50 An institutional mechanism already exists in the form of the Joint Business Council (JBC), which meets annually, with the Federation of Indian Chambers of Commerce and Industry (FICCI) on the Indian side and the China Council for the Promotion of International Trade (CCPIT) on the Chinese side being the nodal organizations. Both FICCI as well as the Confederation of Indian Industry (CII) have also set up representative

offices in China. The JSG feels that there is a need for greater interaction between business and industry representatives of the two countries.

Mutual Investment Promotion

- 7.51 The JSG recommends that in view of the present low cross-border investment between India and China, the two countries should make special effort to promote investment in both directions.

India-China Economic Cooperation

Cooperation between Government Agencies/Institutions for Promoting Trade and Investment

Customs Cooperation

- 7.52 The JSG reiterates that effort should be made to improve customs clearance efficiency. First, to the extent possible, a uniform customs clearance system based on international standards should be gradually implemented across all important ports in both the countries. Second, the two sides should simplify clearance procedures at ports and customs, and improve handling efficiency. They should also cooperate in establishing paperless clearance procedures through automation and computerization to speed up customs clearance. With this aim in view, both the countries should cooperate in the ongoing negotiations on Trade Facilitation in WTO. Third, the *bilateral Agreement on Mutual Administrative Assistance and Co-operation* in Customs Matters should be concluded at the earliest. Fourth, for ensuring transparency in related laws and regulations, the JSG emphasizes on the need for regular exchange of information between customs authorities of both the countries.

Cooperation Between Quality Inspection Organizations

- 7.53 The JSG suggests that China's AQSIQ and the concerned institution of India set up a bilateral dialogue mechanism under the TBT Agreement and the SPS Agreement of the WTO for cooperation and exchanges on technical measures that affect trade in industrial and agricultural products and food grains.
- 7.54 First, transparency should be enhanced. The two sides should maintain communication with each other while formulating and revising their technical trade measures and regulations, technical standards and assessment procedures related to health and safety. WTO/TBT State Notification and Consultancy Center of China and the WTO/SPS State

Notification and Consultancy Center of China should maintain constant contacts with their Indian enquiry points, establishing a mechanism of regular mutual visits and exchanges. The two sides should hold seminars and short-term training courses. The two sides should also communicate to each other, details of the agencies involved in formulation procedures and status of implementation of their respective technical regulations and standards.

- 7.55 Second, cooperation in such fields as harmonizing standards and conformity procedures should be strengthened. The two sides should strengthen cooperation and consultation in coordinating, wherever feasible, their national standards so as to speed up clearance of goods. The two sides should cooperate to improve standardization, certification regulations and qualification evaluation¹², as well as promote coordination between government departments, implementing institutions, and supervision authorities of each country.
- 7.56 Third, the two sides should strengthen their cooperation in food safety, inspection and quarantine of animals and plants, as well as, their processed products. They should establish a mechanism for cooperation on health quarantine and inspection. Conclusion of China-India Pre-Shipping Examination Agreement will be helpful for the elimination of non-tariff trade barriers, as it will effectively form a Green Channel for commodity flow.

Cooperation in Banking Sector

- 7.57 The JSG recommends that regular dialogue and exchanges between the Central banks, the commercial banks and the EXIM banks of the two countries should take place.
- 7.58 Banks of each country should establish offices and affiliates in the other to provide financial services, such as, account settlement, financing, and information consultation for the enterprises of the two countries. The JSG recommends that demands for banking services for trade, investment, travel and other forms of transactions may be periodically assessed, and appropriate tie-up arrangements may be made between Indian and Chinese banks.
- 7.59 Exchanging and sharing of experiences between the banks of the two countries can help in furthering financial sector reforms in each country besides improving services and operational efficiency. India's experience in the field of financial sector reforms including supervision, payment

¹² Qualification evaluation procedures required by technical regulations or standards, such as sampling, examining and inspecting; evaluation, verification and qualification guarantee; Such procedures as registration, accreditation and approval.

systems (e.g., the RTGS mechanism) and retail banking would be of relevance to the on going financial restructuring in China. China's experience in financing infrastructure would be of help to India.

Exchanging Economic and Trade Information

- 7.60 The JSG recommends that the process of sharing information on market, legal environment, trade policies, investment opportunities between the relevant government departments and trade bodies may be institutionalized. The website addresses of the relevant agencies may be communicated and the information on the websites be up-dated regularly. Authorities on both sides should take initiatives to open trade body offices, undertake training of industry/trade bodies and hold trade exhibitions.
- 7.61 The JSG recommends that a permanent exhibition facility may be set up in Beijing and Delhi, where companies from either country could display their products. The numbers of such exhibition facilities could be increased subsequently. The terms and conditions of space allocation could be negotiated between relevant institutions of the two countries.
- 7.62 The chambers of commerce and trade of both countries should play an important role in areas such as provision of market information, coordinating the relationship between enterprises and the government as well as among different enterprises. The two countries should increase the role of industry organizations and strengthen cooperation with particular attention to market information.

Cooperation in Agricultural and Rural Development

Exchange of information about policies and experiences in rural development

- 7.63 Both China and India can benefit by sharing their policy approaches and experiences, including agricultural development policy, building of rural social security system, agricultural science and technology, reducing rural poverty and unemployment, rural financing as well as pricing, marketing and distribution networks. The JSG recommends that the respective authorities may organize joint seminars and workshops devoted to rural development, focusing on the institutional set-ups (including government and non-governmental agencies, donors, and credit-delivery mechanism) in the two countries.

Personnel Exchanges

- 7.64 The personnel of agricultural departments, agricultural economic organizations and research institutions of the two countries should pay

more visits to each other to exchange their experiences in agricultural development, bilateral and multilateral trade status and agricultural research. They could also jointly organize training courses. Colleges, universities and research institutions of the two countries can hold seminars and academic conferences, and conduct exchanges and joint research in innovation and management in agricultural science and technology, bio-technology, anti-insect measures, industrialization and informatization.

Strengthening agricultural technology cooperation

- 7.65 Both China and India have set up nationwide agricultural technology R&D system networks and are comparatively strong in this field. They should encourage mutual sharing of such information on agricultural bio-technology, cropping and farming practices and techniques of agricultural extension, use of high-yielding varieties of seeds, water management practices, farming practices - both under dry land and irrigated systems, mechanics of agricultural extension work, and methods of soil conservation.

Strengthening cooperation in the prevention and curing of plant and animal epidemic diseases

- 7.66 China and India should strengthen coordination and information exchange in the prevention and control of epidemic diseases.

Identification of complementarities in agricultural trade

- 7.67 The JSG recommends that the two countries identify areas of complementarities for trade in agricultural commodities. There is scope for export of agricultural products, such as, rice, wheat, sugar, oil seeds (sesame seeds), oil meals (of soybean and rapeseed), oil (groundnut and castor), fruits and vegetables, milk and milk products, processed food, and plant process machinery in food processing sector from India to China.

Cooperation in Electrical and Electronic Sector

- 7.68 The JSG recommends that bilateral trade should be further developed. Potential areas for co-operation between the two countries include automobile and engineering goods manufacturing, telecommunications, home appliances that have witnessed rapid growth in the recent period. Respective industry bodies in both countries may be encouraged to identify potential areas of trade in components and parts for mutual benefit.

- 7.69 Respective industry bodies in both countries may be encouraged to identify potential areas of trade in components and parts for mutual benefit.
- 7.70 Enterprises from both countries should utilize their capabilities to strengthen cooperation in developing electrical machinery industry. First, electrical machinery manufacturing enterprises from the two countries should cooperate to conduct joint R&D activities on new products. The products should target the markets of the two countries and the international market. Second, China and India should increase their mutual investments and thereby promote the manufacturing of spare parts with high technical content and develop their export capacities in the global market.
- 7.71 The JSG suggests that enterprises of the two countries should be encouraged to play a greater role in the formulation and exchange of technology standards, which would enhance bilateral trade and cooperation.
- 7.72 India has considerable advantage in technology R&D and human resource costs besides having established a system for promoting software industry development and training of personnel. China has accumulated a lot of experience in developing its manufacturing industry and in attracting FDI into electronics and spare parts manufacturing sectors. Owing to their unique experiences, India and China can strengthen exchange of experience and personnel in such areas as industrial policies, management modes and improvement of industrial R&D and technological levels to develop a win-win situation.

Project Contracting

- 7.73 The JSG notes that construction companies have pointed out that it would be mutually beneficial to enter each other's market through collaboration especially in areas such as road construction, ports, railways, hydro power projects etc. The JSG recommends the following:

Strengthening exchange of experience

- 7.74 The policies and administrative experience of the two governments in encouraging enterprises to contract overseas projects and promoting utilisation of human resources have yielded good dividends. Exchange of experience between the two countries in this area, including in the facilitation of resolution of labour disputes, will be helpful to both.

Governments should encourage their enterprises to contract projects in the other

- 7.75 The two governments should facilitate the development of bilateral project contracting, through exchange of information in general concerning project contracting, grant of export credit, and information exchange on risk mitigation measures.

Engagement in joint project contracting and coordination in project exports in third country markets

- 7.76 For project contracting in a third country, the enterprises of China and India can jointly undertake projects and make full use of their respective strengths. The two countries can learn from each other's experience in export of human resources in order to enhance the protection of benefits and rights to them.

Chinese and Indian enterprises should strengthen cooperation in outsourcing in manufacturing and services

- 7.77 Since India has become the largest player in service outsourcing, and enjoys advantages in project contracting and management capabilities, and China has great potential in undertaking projects internationally, Indian and Chinese enterprises can cooperate in contracting outsourcing business- in manufacturing and services for mutual benefit.

Cooperation in Energy Resources

- 7.78 The JSG notes that both China and India are short of energy resources, particularly hydrocarbon based resources. Ensuring energy supply and improving the efficiency of energy utilization are the key issues faced by both countries. They are also actively engaged in seeking energy sources in other countries to secure their energy security.

Cooperation in development of nuclear energy

- 7.79 Both India and China are rapidly developing their electricity production by nuclear energy to meet their large electricity requirements. Pressurized Heavy Water Reactors (PHWRs) and Light Water Reactors (LWRs) are being developed for electricity generation in both the countries. Both the countries have important position among developing countries in nuclear energy applications. There are similar interests in development of advanced technologies for electricity production. Because of their rapid development and large population, both India and China, accord high priority to electricity generation using nuclear energy with a view to reduce potential carbondioxide emission. The JSG recommends that the two countries can cooperate in the field of nuclear energy including R&D in a mutually beneficial manner.

The two countries should encourage their enterprises to work together to exploit the petroleum and natural gas resources in third countries

- 7.80 The combined energy requirements of India and China would exceed those of the EU and Japan by 2020. A joint India-China bid in third countries will make such bids globally powerful and go a long way in ensuring energy security. The JSG recommends that relevant Ministries of the two countries could consider establishing an institutional mechanism aimed at promoting joint efforts in sourcing energy supplies, including Petroleum and Natural Gas in third countries as also the commercial exploitation of other energy resources in third countries.

The two countries can cooperate in developing technologies for renewable resources

- 7.81 Both India and China are developing and promoting the application of renewable resources including wind energy, solar energy, tide energy and bio- energy, etc. The two countries can jointly develop the new energy technologies through cooperative projects.

Strengthen Investments

- 7.82 The JSG recommends that the relevant governmental departments should conduct research, formulate policies and take measures to encourage Indian and Chinese enterprises to strengthen their investments and cooperation in mining of such mineral resource as iron ore, coal and bauxite.

Exchange of experience in energy management

- 7.83 Both India and China are reforming their domestic energy management systems, relaxing state controls and trying to be more open to both the private and foreign investors. The two countries should conduct more exchanges and share useful experiences in establishing a more efficient energy management system.

Management of Economy

Urban Development and City Management

- 7.84 In the light of outstanding problems in urban development in both countries, and the launch of National Urban Renewal Mission by India, the two countries can carry out cooperation and exchanges in the developmental priorities of common concern, including urban development

policies, city planning, urban traffic management, construction and financing of urban infrastructure and public health facilities, construction of urban communities, solutions to the urban poor population problem, establishment of urban emergency measures and early warning systems, user charges, local resource mobilization, institutional and administrative set-ups, incentive patterns, public-private co-operation etc.

- 7.85 The JSG recommends that the concerned ministries of the two countries should make the necessary institutional arrangement for sharing information on policies and implementation of urban development.

Poverty Relief and Social Security and Pension Insurances

- 7.86 The JSG observes that India and China are midway through a demographic transition and are placed in a favourable position on the economic front due to their relatively large working populations. An inevitable consequence of this trend would be greater fiscal pressures through higher government spending on social security, health care and other welfare programs for the elderly accompanied by lower tax buoyancy consequent to falling proportions of the productive labor force. India and China should establish a dialogue mechanism between the governments and academic circles, so as to benefit by sharing information on their policies and approaches regarding aging populations, healthcare, pension and social security systems etc. Joint effort could be made to work out ways in which developing countries, with large populations, would disburse equitably, benefits of economic development to their populations, and improve social stability and harmony.

Development of SMEs

- 7.87 Strengthening cooperation and exchanges in the area of development experiences vis-à-vis SMEs could be of great significance to the two countries. Governments should play an active role in pushing forward China-India cooperation and exchanges in this area. First, the successful experiences in the development of SMEs should be shared, including government policies, management system, laws and regulations; second, the governments should create favorable conditions for the SMEs of the two countries to cooperate with each other; for example, by holding some exhibitions and information briefings for the products of SMEs so as to encourage the enterprises to communicate and cooperate with each other. Third, there is immense scope for Indian companies to improve productivity by forming alliances with their Chinese counterparts for establishing energy efficient and environment friendly projects, including in the area of biotechnology. Fourth, the two countries could consider co-operation in knowledge-based industries.

Disaster Management

- 7.88 Both India and China suffer frequent natural disasters. They should, therefore, strengthen cooperation and exchanges in the field of disaster management. Cooperation in human resources should be intensified, especially in the field training of personnel and arranging joint workshops in related areas, to improve disaster management capabilities. Secondly, sharing of experience and knowledge of disaster relief and disaster control should be strengthened, especially in natural calamities, such as, floods, earthquakes and tsunamies. Thirdly, the two countries should exchange experiences in such fields as the cultivation of disaster-prevention and disaster reduction awareness. Fourthly, China and India should share technologies and exchange experiences in the construction of early warning and communication systems for disaster management.

Exchange of Experiences between Regulatory Bodies

- 7.89 There are considerable synergies for sharing of experiences between the regulatory bodies of the two countries through close co-operation. These may include exchanges involving systems, modes, efficiency and functions of the managerial institutions. The JSG reiterates the early signing of MOU on the establishment of India-China Financial Dialogue, commencement of the dialogue, and fulfillment of the mandate as provided in the Joint Declaration.
- 7.90 There is already a proposal for co-operation between the Ministry of Consumer Affairs of India and the Chinese Securities and Regulatory Commission (CSRC), and the CSRC and the Securities and Exchange Board of India (SEBI). The JSG is of the view that similar co-operation mechanisms should be extended to other regulatory bodies as well.

Remote Sensing Applications

- 7.91 Co-operation in remote-sensing applications, including sharing of data/information would be of immense benefit to both countries. The JSG notes that this process has already started with the concerned agencies of the two countries cooperating in this area. To meet the needs of national security and economic development, the two countries could further strengthen cooperation in this area. The two countries may identify priority areas of cooperation and strengthen technological cooperation by promoting exchanges and training of personnel.

Water Resource Management

- 7.92 The shortage of water resource in China and India is becoming more and more serious. China and India can share experience and strengthen

cooperation in the field of water management, including drainage area management; sharing of experience in developing new technologies and new methods in saving water. Sound management of water resources assumes critical importance for sustainable agricultural development, since both the economies are susceptible to the vagaries of nature. Both the countries should share experiences in water management, including storage and conservation mechanisms, use of irrigated land, distribution channel, and fixation of user charges.

Exchanges between Research Institutions on Problems of Common Interest

- 7.93 The JSG is of the view that regular exchange of ideas and professionals between counterpart research institutions of China and India will go a long way in enhancing their development application capabilities.
- 7.94 The two governments should encourage research institutions to utilize different methods in carrying out international exchanges in all fields and strengthening cooperation in such fields as science, culture, education, policy research etc. The academic and research institutes of the two countries should strengthen exchanges and cooperation with each other. The relevant departments of the two governments should identify some priority areas to start exchanges and cooperation with focus on the projects of common interest. One specific area is the application of biotechnology, particularly for developing high yield crop varieties and other forms of genetically engineered products. Indian and Chinese biotech sectors have the potential for bilateral cooperation through joint ventures and intra-industry trade. Other areas could be collaborative research studies in farming practices, food processing, agro-marketing and supply chain management. Bilateral cooperation could be carried in various ways, including through joint studies in research institutions, exchange of research achievements, and exchange and training of research staff.

Joint Economic Group to Consider and Decide on the Manner of Implement of the Recommendations

- 7.95 The JSG recommends the expeditious implementation of measures identified in Chapters 2 to 5 of this Report to remove impediments and facilitate enhanced economic engagement within an agreed time frame
- 7.96 The JSG recommends that the Ministerial-level India-China Joint Economic Group consider these recommendations and decide on the manner of their implementation within the next six months. The progress in actual implementation of the measures will be monitored regularly.

India-China Regional Trading Arrangement

- 7.97 In the light of the considerations mentioned in Chapter 6 and also taking into account the long-term economic relationship between the two countries, the JSG recommends the following:
- 7.98 Evolving a China-India Regional Trading Arrangement comprising:
- a. Trade in goods and services, and investments;
 - b. Identified understandings for trade and investment promotion and facilitation; and
 - c. Measures for promotion of economic cooperation in identified sectors;
- 7.99 The JSG recommends that the two Governments appoint a Joint Task Force to study in detail the feasibility of, and the benefits that may derive from, the China-India Regional Trading Arrangement referred to in paragraph 7.98 above and also give recommendations regarding its content.

Appendix of Chapter 2

**Figure 2A.1: Scheme of Consultation Mechanisms
(As per para 2.48)**

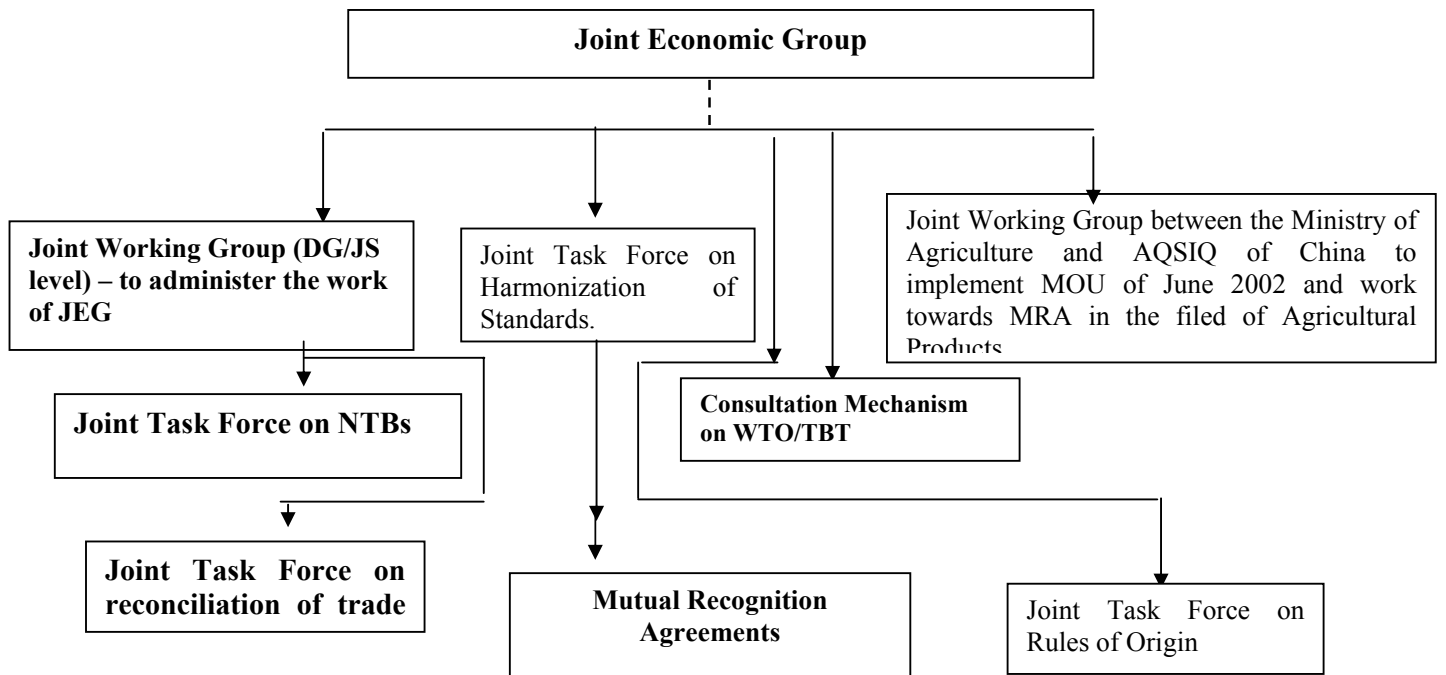


Table 2A.1: Major Exports from India to China

S.No.	Description	Value(US\$m il) 2003-04	per cent growth*	Per cent share2003- 04	per cent share2002- 03
1	Iron ore	823.6	101.7	27.8	20.7
2	Prmry & semi-fnshd iron & stl	565.5	15.5	19.1	24.8
3	Plastic & linoleum products	295.6	66.6	10.0	9.0
4	Other ores and minerals	130.8	-15.0	4.4	7.8
5	Processed minerals	100.1	14.6	3.4	4.4
6	Drugs, phrmcutes & fine chemls	97.6	5.2	3.3	4.7
7	Marine products	86.8	-26.5	2.9	6.0
8	Inorganic/organic/agro chemls	83.9	-5.1	2.8	4.5
9	Cotton yarn, fabrics, madeupsetc	75.1	17.5	2.5	3.2
10	Machinery and instruments	74.9	131.3	2.5	1.6
	Total			78.7	

Source: Department of Commerce, Government of India.

*Growth between 2002-03 and 2003-04.

Table 2A.2: Commodity Structure of Indian Exports to China

HS		Export Volume (2003)	Percentag e	Export Volume (1995)	Percentage
26	Ores, scoria, and mineral ashes	1,330,794,783	31.5	152,841,469	38.4
72	Iron & steel	1,074,909,828	25.5	17,508,166	4.4
39	Plastics and plastic products	323,962,825	7.7	18,741,977	4.7
29	Organic chemical products	273,293,830	6.5	21,220,758	5.3
71	Jewelry, noble metals and their products; modeled jewelry; coin	164,207,519	3.9	10,424,098	2.6
25	Salt, sulfur, soil and stone materials; limestone and cement	144,580,172	3.4	-	-
52	Cotton	126,845,770	3.0	24,401,789	6.1
28	Inorganic chemical products; compounds like noble metals	127,216,583	3.0	17,666,368	4.4
84	Nuclear reactor, boiler, machinery equipment and their spare parts	78,361,988	1.9	-	-
41	Peltry (furs excluded) and leather	65,969,329	1.6	24,276,701	6.1
15	Animal and plant oil, fat and wax; refined edible grease	-	-	28,688,752	7.2
03	Fish and other aquatic invertebrate animals	-	-	26,338,666	6.6
	Total	3,710,142,627	88.0	342,108,744	85.8

Source: China P RP

Table 2A.3: Major Exports from China to India

S. No	Description	Value(US\$ mil) 2003-04	Per cent growth*	Per cent share2003- 2004	Per cent share2002- 2003
1	Electronic goods	1378.8	70.2	34.1	29.0
2	Organic chemicals	472.0	45.0	11.7	11.7
3	Coal, coke & briquettes etc.	220.8	26.0	5.5	6.3
4	Other commodities	219.4	84.9	5.4	4.2
5	Medicinal & phrma cuticl prodts	184.1	22.8	4.6	5.4
6	Machry excpt elec & electronic	182.9	73.5	4.5	3.8
7	Silk, raw	112.8	5.7	2.8	3.8
8	Oth txt yrn, fabs, made up artl	107.5	41.9	2.7	2.7
9	Inorganic chemicals	104.3	50.9	2.6	2.5
10	Silk yarn & fabrics	103.0	97.8	2.6	1.9
	Total			76.5	

Source: Department of Commerce, Government of India.

*Growth between 2002-03 and 2003-04

Table 2A.4: Commodity Structure of Chinese Exports to India

HS		Export Volume 2003	Percenta ge	Export Volume 1995	Percentag e
85	Electric machinery, electronic & audio- video equipment and their spare parts	657,817,747	19.9	47,981,998	6.3
29	Organic chemical products	630,571,494	19.1	181,807,913	23.8
84	Nuclear reactor, boiler, machinery equipment and their spare parts	292,087,577	8.8	68,254,973	8.9
27	Mineral fuels, mineral oil and its products, asphaltum, etc.	235,635,480	7.1	107,594,604	14.1
50	Silk	224,170,411	6.8	98,244,918	12.8
59	Soaked, wrapped or laminated fabric; industrial-purpose fabrics	125,560,779	3.8	-	-
54	Chemical fiber threads	98,952,450	3.0	-	-
28	Inorganic chemical products, compounds like noble metals	91,066,972	2.8	57,334,705	7.5
90	Optical, photographing and medical equipments and their spare parts	65,686,470	2.0	-	-
73	Iron & steel products	57,340,189	1.7	-	-
07	Edible vegetables, roots and tubers	-	-	20,999,805	2.7
48	Paper and paper board; pulp, paper or paper board products	-	-	20,772,732	2.7
25	Salt, sulfur, soil and stone materials; limestone and cement	-	-	20,727,168	2.7
72	Iron & steel	-	-	16,444,748	2.1
	Total	2,478,889,569	75.0	640,163,564	83.6

Source: China P RP

Table 2A.5: List of Commodities with Unexploited Potential for Exports from India to China

S.No.	HS Code	Product Description
Agricultural and Allied Products		
Live Animals; Animal Products: (01-05)		
<i>Fish, crustaceans, molluscs, aquatic invertebrates nes</i>		
1	030374	Mackerel, frozen, excluding heading No 03.04, livers and roes
2	030624	Crabs, not frozen, in shell or not, including boiled in shell
3	030629	Crustaceans nes, not frozen, in shell or not, including boiled in shell
4	030739	Mussels, shelled or not, frozen, dried, salted or in brine
5	030749	Cuttle fish and squid, shelled or not, frozen, dried, salted or in brine
<i>Dairy products, eggs, honey, edible animal product nes</i>		
6	040229	Milk and cream powder sweetened exceeding 1.5% fat
7	040700	Eggs, bird, in shell, fresh, preserved or cooked
<i>Products of animal origin, nes</i>		
8	050790	Whalebone, horns, etc unworkd or simply preparad, unshapd, and powder&waste
9	051191	Fish, shellfish&aqua invert prod nes&dead anim of Ch 3 nt for hum cons
Vegetable Products: (06-14)		
<i>Live trees, plants, bulbs, roots, cut flowers etc</i>		
10	060499	Foliage, branch, etc w/o flowers/buds&grass for bouquet/orn purp exc fr
<i>Edible vegetables and certain roots and tubers</i>		
11	070310	Onions and shallots, fresh or chilled
12	071340	Lentils dried, shelled, whether or not skinned or split
<i>Edible fruit, nuts, peel of citrus fruit, melons</i>		
13	080450	Guavas, mangoes and mangosteens, fresh or dried
14	080610	Grapes, fresh
15	080720	Papaws (papayas), fresh
16	081090	Fruits, fresh nes
17	081290	Fruits&nuts provis preservd but unfit f immediate consumption nes

Coffee, tea, mate and spices		
18	090411	Pepper of the genus Piper, ex cubeb pepper, neither crushed nor ground
19	090412	Pepper of the genus Piper, except cubeb pepper, crushed or ground
20	090700	Cloves (whole fruit, cloves and stems)
21	090810	Nutmeg
22	090830	Cardamoms
Cereals		
23	100630	Rice, semi-milled or wholly milled, whether or not polished or glazed
Milling products, malt, starches, inulin, wheat gluten		
24	110314	Rice groats and meal
25	110630	Flour, meal & powder of edible fruits & nuts & peel of citrus fruit or melons

Contd..

Oil seed, oleagic fruits, grain, seed, fruit, etc, nes		
26	120210	Ground-nuts in shell not roasted or otherwise cooked
27	120220	Ground-nuts shelled, whether or not broken, not roasted or otherwise cooked
28	120799	Oil seeds and oleaginous fruits, nes, whether or not broken
29	120810	Soya bean flour and meals
30	120991	Seeds, vegetable, nes for sowing
31	121292	Sugar cane, fresh or dried, whether or not ground
Lac, gums, resins, vegetable saps and extracts nes		
32	130110	Lac
33	130219	Vegetable saps and extracts nes
Vegetable plaiting materials, vegetable products nes		
34	140410	Raw vegetable materials used primarily in dyeing or tanning
35	140490	Vegetable products nes
Animal or Vegetable Fats and Oils and their Cleavage Products; Prepared Edible Fats; Animal or Vegetable Waxes: 15		
Animal, vegetable fats and oils, cleavage products, etc		
36	151319	Coconut (copra) oil & its fractions refined but not chemically modified
37	151590	Veg fats & oils nes & their fractions, refined or not but not chemically modified
38	151620	Veg fats & oils & fractions hydrogenated, inter/esterified, etc, refined/not
39	151800	Animal/veg fats & oils & fractions boiled oxidized, etc, & ind mix/prep nes

		ex 15.16
40	151911	Stearic acid
41	151920	Acid oils from refining
42	152010	Glycerol (glycerine), crude and glycerol waters and lyes
Prepared foodstuffs; beverages. Spirits and vinegar; tobacco and manufactured tobacco substitutes: (16-24)		
<i>Sugars and sugar confectionery</i>		
43	170111	Raw sugar, cane
44	170199	Refined sugar, in solid form, nes
45	170230	Glucose&glucose syrup nt cntg fruct/cntg in dry state <20% by wt fruct
<i>Cereal, flour, starch, milk preparations and products</i>		
46	190190	Malt extract&food prep of Ch 19 <50% cocoa&hd 0401 to 0404 < 10% cocoa
<i>Vegetable, fruit, nut, etc food preparations</i>		
47	200799	Jams,fruit jellies,fruit/nut puree&paste,ckd prep,sugard,sweetend/not
<i>Miscellaneous edible preparations</i>		
48	210120	Tea or mate extracts,essences & concentrates & preparations thereof
<i>Beverages, spirits and vinegar</i>		
49	220720	Ethyl alcohol and other spirits, denatured, of any strength
<i>Residues, wastes of food industry, animal fodder</i>		
50	230230	Wheat bran, sharps and other residues, pelleted or not
Contd...		

<i>Tobacco and manufactured tobacco substitutes</i>		
51	240110	Tobacco, unmanufactured, not stemmed or stripped
52	240120	Tobacco, unmanufactured, partly or wholly stemmed or stripped
53	240399	Tobacco extracts and essences
<i>Mineral and Mineral Fuels</i>		
<i>Salt, sulphur, earth, stone, plaster, lime and cement</i>		
54	250510	Silica sands and quartz sands
55	250610	Quartz (other than natural sands)
56	250621	Quartzite, crude or roughly trimmed
57	250629	Quartzite, nes
58	250810	Bentonite

59	251621	Sandstone, crude or roughly trimmed
60	251710	Pebbles, gravel, broken or crushed stone used for aggregates etc
61	252310	Cement clinkers
62	252329	Portland cement nes
63	252510	Mica crude or rifted into sheets or splittings
64	252910	Felspar
Ores, slag and ash		
65	260600	Aluminium ores and concentrates
66	262100	Slag and ash nes, including seaweed ash (kelp)
Chemicals and Plastics		
Inorganic chemicals, precious metal compound, isotopes		
67	280200	Sulphur, sublimed or precipitated; colloidal sulphur
68	280540	Mercury
69	281511	Sodium hydroxide (caustic soda) solid
70	282120	Earth colours cntg 70%/more by wght of combin iron evaluatd as Fe ₂ O ₃
71	282739	Chlorides of metals nes
72	282760	Iodides and iodide oxides of metals
73	283330	Alums
74	283510	Phosphinates (hypophosphites) & phosphonates (phosphites) of metals
75	283640	Potassium carbonates
76	284140	Potassium dichromate
77	284700	Hydrogen peroxide
78	285000	Hydrides, nitrides, azides, silicides & borides
79	285100	Inorgn compds nes; liquid air; compressed air; amalgams o/t of prec metals
Organic chemicals		
80	290220	Benzene
81	290243	P-xylene
82	290340	Halogenatd derivs of acyclic hydrocarbons cntg two/more differnt halog
83	290369	Halogenated derivatives of aromatic hydrocarbons, nes
84	290542	Pentaerythritol
85	290629	Aromatic alcohols nes; derivatives of aromatic alcohols
86	290712	Cresols and their salts
<i>Contd...</i>		
87	290723	4,4'-isopropylidenediphenol (bisphenol A, diphenylolpropane) & its salts
88	290729	Polyphenols nes

89	290820	Derivs of phenols/phenol-alc cntg only sulpho groups,their salts&estr
90	291413	4-methylpentan-2-one(methyl isobutyl ketone)
91	291521	Acetic acid
92	291522	Sodium acetate
93	291531	Ethyl acetate
94	291631	Benzoic acid, its salts and esters
95	292090	Esters of inorganic acids, nes, their salts and their derivatives
96	292213	Triethanolamine and its salts
97	292390	Quarternary ammonium salts and hydroxides, nes
Pharmaceutical products		
98	300110	Glands and other organs, dried, powdered or not, for therapeutic uses
99	300310	Penicillins or streptomycins and their derivatives,formulated,in bulk
100	300490	Medicaments nes, in dosage
101	300660	Contraceptive preparations based on hormones or spermicides
Tanning, dyeing extracts, tannins, derivs,pigments etc		
102	320190	Tanng extracts of veg orig,nes;tannins&thr salts,ethers,esters&derivs
103	320414	Direct dyes and preparations based thereon
104	320420	Synthetic organic products used as fluorescent brightening agents
105	320500	Colour lakes and preparations based thereon
106	320710	Pigments,opacifier,colour&sim preps f ceramic,enamellg/glass industry
Essential oils, perfumes, cosmetics, toileteries		
107	330129	Essential oils, nes
108	330190	Conc&aqueous distls of essentl oils;terpenic by-prods of essentl oils
109	330610	Dentifrices
Soaps, lubricants, waxes, candles, modelling pastes		
110	340111	Toilet soap&prep,shaped;papers&nonwovens impreg with soap toilet use
Albuminoids, modified starches, glues, enzymes		
111	350110	Casein
112	350190	Casein glues; caseinates and other casein derivatives

Miscellaneous chemical products		
113	381710	Mixed alkylbenzenes, nes
Plastics and articles thereof		
114	390760	Polyethylene terephthalate
115	391220	Cellulose nitrates (incl collodions)
116	392071	Film and sheet etc, non-cellular etc, of regenerated cellulose
117	392390	Articles for the conveyance or packing of goods nes, of plastics

Contd...

Manufactures Chiefly by Material		
Rubber and articles thereof		
118	400280	Mixtures of any product of headg No 40.01 w any product of this headg
119	400300	Reclaimed rubber in primary forms or in plates, sheets or strip
120	400819	Rods and profile shapes of cellular rubber (vulcanised)
121	401091	Conveyor belts or belting vulcanised rubber exceeding 20 cm wide
122	401150	Pneumatic tires new of rubber for bicycles
123	401290	Solid o cushiond tires,interchangeable tire treads&tire flaps of rbr
124	401490	Hygienic or pharmaceutical articles of rubber etc nes
125	401511	Gloves surgical of rubber
126	401590	Articles of apparel & clothing accessories nes,of vulcanised rubber
127	401610	Articles of cellular rubber
128	401691	Floor coverings and mats of rubber exc cellular and hard rubber
Raw hides and skins (other than furskins) and leather		
129	410410	Bovine skin leather, whole
130	410439	Bovine and equine leather, nes
131	410519	Sheep or lamb skin leather, tanned or retanned, nes
132	410520	Sheep or lamb skin leather, nes
133	410611	Goat or kid skin leather, vegetable pre-tanned
134	410619	Goat or kid skin leather, tanned or retanned, nes
135	410620	Goat or kid skin leather, nes
Articles of leather, animal gut, harness, travel goods		
136	420500	Articles of leather or of composition leather, nes

Wood and articles of wood, wood charcoal		
137	441090	Particle board of other ligneous materials
138	441199	Fibreboard nes (0.35 g/cm ² & less)
Paper & paperboard, articles of pulp, paper and board		
139	480210	Paper, hand-made, uncoated, in rolls or sheets
140	480251	Paper, fine, woodfree, in rolls or sheets, <40 g/m ² , uncoated, nes
141	480710	Paper, laminated internally w bitumen tar/asphalt, rolls/sheets, not ctd
142	480910	Paper, carbon/similar copying, rolls width >36 cm, sheets one side >36 cm
143	481690	Paper, copying/transfer, nes
144	482090	Office supplies nes, of paper
Printed books, newspapers, pictures etc		
145	490110	Brochures, leaflets and similar printed matter, in single sheets
146	490210	Newspapers, journals & periodicals, appearing at least four times a week
Wool, animal hair, horsehair yarn and fabric thereof		
147	510220	Coarse animal hair, not carded or combed
148	510320	Waste (other than noils) of wool/of fine animal hair, ex garnetted stock
149	510540	Coarse animal hair, carded or combed
150	510720	Yarn of combed wool, <85% by weight of wool, not put up for retail sale
151	511211	Woven fabric of combed wool/fine animal hair, >=85% by wght, <=200 g/m ²
152	511220	Woven fabrics of combed wool/fine animal hair, <85% by wt, mixed w m-m fil

Contd..

Cotton		
153	520299	Cotton waste, nes
154	520419	Cotton sewing thread, <85% by weight of cotton, not put up for retail sale
155	520420	Cotton sewing thread, put up for retail sale
156	520515	Cotton yarn, >=85%, single, uncombed, <125 dtex, not put up for retail sale
157	520543	Cotton yarn, >=85%, multi, combed, 232.56 >dtex >=192.31, not put up, nes
158	520849	Woven fabrics of cotton, >=85%, not more than 200 g/m ² , yarn dyed, nes
159	520851	Plain weave cotton fabrics, >=85%, not more than 100

		g/m2, printed
160	520859	Woven fabrics of cotton, >=85%, not more than 200 g/m2, printed, nes
161	520919	Woven fabrics of cotton, >=85%, more than 200 g/m2, unbleached, nes
162	520921	Plain weave cotton fabric, >=85%, more than 200 g/m2, bleached
163	520931	Plain weave cotton fabrics, >=85%, more than 200 g/m2, dyed
164	520942	Denim fabrics of cotton, >=85%, more than 200 g/m2
165	521011	Plain weave cotton fab, <85% mixd w m-m fib, not more than 200 g/m2, unbl
166	521121	Plain weave cotton fab, <85% mixd w m-m fib, more than 200 g/m2, bleachd
167	521131	Plain weave cotton fab, <85% mixed with m-m fib, more than 200 g/m2, dyed
168	521152	Twill weave cotton fab, <85% mixd w m-m fib, more than 200 g/m2, printd
169	521214	Woven fabrics of cotton, <=200g/m2, of yarns of different colours, nes
170	521221	Woven fabrics of cotton, weighing more than 200 g/m2, unbleached, nes
<i>Vegetable textile fibres nes, paper yarn, woven fabric</i>		
171	530310	Jute and other textile bast fibres, raw or retted
172	530410	Sisal and other textile fibres of the genus Agave, raw
173	530490	Sisal textile fibres processed but not spun; tow & waste of sisal fibres
174	530511	Coconut (coir) fibre, raw
175	530519	Coconut (coir) fibre, processd nt spun; tow, noils & waste of coconut fib
176	530529	Abaca fibre, processed but not spun; tow, noils and waste of abaca fibres
<i>Manmade filaments</i>		
177	540233	Textured yarn nes, of polyester filaments, not put up for retail sale
178	540242	Yarn of polyester filaments, partially oriented, single, nes, not put up
179	540243	Yarn of polyester filaments, single, untwisted, nes, not put up
180	540251	Yarn of nylon or other polyamides fi, single, >50 turns/m, not put up
181	540252	Yarn of polyester filaments, single, >50 turns per metre, not put up

182	540259	Yarn of synthetic filaments,single,>50 turns per metre,nes,not put up
183	540269	Yarn of synthetic filaments, multiple, nes, not put up
184	540310	High tenacity yarn (o/t sewg thread),of viscose rayon filamt,nt put up
185	540320	Textured yarn nes,of artificial filaments,not put up for retail sale
186	540339	Yarn of artificial filaments, single, nes, not put up
187	540341	Yarn of viscose rayon filaments, multiple, nes, not put up
188	540342	Yarn of cellulose acetate filaments, multiple, nes, not put up
189	540349	Yarn of artificial filaments, multiple, nes, not put up
190	540710	Woven fab of high tenacity fi yarns of nylon oth polyamides/polyesters
191	540744	Woven fabrics,>/=85% of nylon/other polyamides filaments, printed, nes
192	540773	Woven fabrics,>/=85% of synthetic filaments, yarn dyed, nes
193	540781	Woven fabrics of synthetic filaments,<85% mixd w cotton,unbl o bl,nes
194	540782	Woven fabrics of synthetic filaments,<85% mixed with cotton,dyed,nes
195	540794	Woven fabrics of synthetic filaments, printed, nes

Contd..

196	540810	Woven fabrics of high tenacity filament yarns of viscose rayon
197	540824	Woven fab,>/=85% of artificial fi or strip of art tex mat,printd,nes
198	540834	Woven fabrics of artificial filaments, printed, nes

Manmade staple fibres

199	550120	Filament tow of polyesters
200	550190	Synthetic filament tow, nes
201	550320	Staple fibres of polyesters, not carded or combed
202	550510	Waste of synthetic fibres
203	550620	Staple fibres of polyesters, carded or combed
204	550690	Synthetic staple fibres, carded or combed, nes
205	550912	Yarn,>/=85% nylon o oth polyamides staple fibres,multi,not put up,nes
206	550922	Yarn,>/=85% of polyester staple fibres, multiple, not put up, nes
207	550942	Yarn,>/=85% of other synthetic staple fibres, multiple, not put up,nes
208	550959	Yarn of polyester staple fibres, not put up, nes
209	550969	Yarn of acrylic staple fibres, not put up, nes

210	550999	Yarn of other synthetic staple fibres, not put up, nes
211	551030	Yarn of artificial staple fibres mixed with cotton, not put up, nes
212	551090	Yarn of artificial staple fibres, not put up, nes
213	551219	Woven fabrics, containing $\geq 85\%$ of polyester staple fibres, o/t unbl or bl
214	551221	Woven fabrics, containing $\geq 85\%$ of acrylic staple fibres, unbleached or bl
215	551299	Woven fabrics, containing $\geq 85\%$ of other synthetic staple fib, o/t unbl/bl
216	551313	Woven fab of polyest staple fib, $< 85\%$ mixd w/cot, $\leq 170\text{g/m}^2$, unbl/bl, nes
217	551319	Woven fabrics of oth syn staple fib, $< 85\%$, mixd w/cot, $\leq 170\text{g/m}^2$, unbl/bl
218	551323	Woven fab of polyester staple fib, $< 85\%$, mixd w/cot, $\leq 170\text{g/m}^2$, dyd, nes
219	551329	Woven fabrics of oth syn staple fib, $< 85\%$ mixd w/cotton, $\leq 170\text{g/m}^2$, dyed
220	551333	Woven fab of polyest staple fib, $< 85\%$ mixd w/cot, $\leq 170\text{g/m}^2$, dyd nes
221	551349	Woven fab of oth syn staple fib, $< 85\%$, mixed w/cot, $\leq 170\text{g/m}^2$, printed
222	551439	Woven fabrics of oth syn staple fib, $< 85\%$ mixd w/cot, $> 170\text{g/m}^2$, yarn dyd
223	551512	Woven fabrics of polyester staple fibres mixd w man-made filaments, nes
224	551599	Woven fabrics of synthetic staple fibres, nes
Wadding, felt, nonwovens, yarns, twine, cordage, etc		
225	560749	Twine nes, cordage, ropes and cables, of polyethylene or polypropylene
226	560750	Twine, cordage, ropes and cables, of other synthetic fibres
Carpets and other textile floor coverings		
227	570110	Carpets of wool or fine animal hair, knotted
228	570241	Carpets of wool/fine animal hair, of wovn pile construction, made up, nes
229	570292	Carpets of man-made textile materials, woven, made up, nes
230	570390	Carpets of other textile materials, tufted
231	570500	Carpets and other textile floor coverings, nes
Special woven or tufted fabric, lace, tapestry etc		
232	580211	Terry towellg & similar woven terry fab of cotton, o/t narrow fab, unbl

233	580429	Mechanically made lace of oth tex mat,in the piece,in strips/in motifs
234	580900	Woven fabrics of metal thread/of metallisd yarn,for apparel,etc,nes
235	581092	Embroidery of man-made fibres,in the piece,in strips or in motifs,nes

Contd..

<i>Impregnated, coated or laminated textile fabric</i>		
236	590310	Textile fab impregnatd,ctd,cov,or laminatd w polyvinyl chloride,nes
237	591000	Transmission or conveyor belts or belting of textile material
<i>Knitted or crocheted fabric</i>		
238	600121	Looped pile knitted or crocheted fabrics, of cotton
239	600191	Pile knitted or crocheted fabrics, of cotton, nes
240	600242	Warp knitted fabrics, of cotton, nes
241	600249	Warp knitted fabrics, of other materials, nes
<i>Articles of apparel, accessories, knit or crochet</i>		
242	610610	Womens/girls blouses and shirts, of cotton, knitted
243	610910	T-shirts, singlets and other vests, of cotton, knitted
<i>Articles of apparel, accessories, not knit or crochet</i>		
244	620441	Womens/girls dresses, of wool or fine animal hair, not knitted
245	620520	Mens/boys shirts, of cotton, not knitted
<i>Other made textile articles, sets, worn clothing etc</i>		
246	630311	Curtains,drapes,interior blinds&curtain or bed valances,of cotton,knit
247	630319	Curtains,drapes,interior blinds&curtain/bd valances,oth tex mat,knit
248	630391	Curtains/drapes/interior blinds&curtain/bd valances,of cotton,not knit
<i>Stone, plaster, cement, asbestos, mica, etc articles</i>		
249	680229	Monumental/building stone, cut/sawn flat or even nes
250	680800	Panels,board etc of veg fib,straw etc agglomeratd w/cement etc binders
251	681270	Compressed asbestos fibre jointing, in sheets or rolls
252	681290	Asbestos fabricated products nes
<i>Ceramic products</i>		
253	690810	Tiles, cubes and sim <7 cm rect or not etc, glazed ceramics

254	691010	Ceramic sinks, wash basins etc & similar sanitary fixtures of porcelain/china
255	691090	Ceramic sinks, wash basins etc & similar sanitary fixtures nes
Glass and glassware		
256	700410	Drawn glass sheets, coloured etc havg an absorbg or reflectg layer
257	700510	Float glass etc in sheets, non-wird havg an absorbent or reflectg layer
258	701010	Ampoules of glass conveyance or packing
259	701790	Laboratory, hygienic or pharmaceutical glassware etc nes
260	701910	Slivers, rovings, yarn and chopped strands of glass
Pearls, precious stones, metals, coins, etc		
261	710239	Diamonds non-industrial nes excluding mounted or set diamonds
262	710310	Prec/semi-prec stones (o/t diamonds) unworkd/simply sawn/rough shapd
263	710391	Rubies, sapphires and emeralds further worked than sawn or rough shaped
264	710399	Precious/semi-precious stones nes further workd than sawn/rough shapd
265	711029	Palladium in other semi-manufactured forms

Contd..

266	711319	Articles of jewellery & pt therof of/o prec met w/n platd/clad w prec met
267	711790	Imitation jewellery nes
Metals and Metal Articles Thereof: 72-80		
Iron and Steel: 72-73		
268	720241	Ferro-chromium containing by weight more than 4% of carbon
269	720249	Ferro-chromium, nes
270	720299	Ferro-alloys, nes
271	720610	Ingots, iron or non-alloy steel, of a purity of less than 99.94% iron
272	720890	Flat rolled prod, i/nas, not further worked than hot rolled, nes
273	720921	Flat rolled prod, i/nas, in coil, cr, ≥ 600 mm wide, 3mm or more thk, nes
274	720923	Flat rolled prod, i/nas, in coil, cr, $w \geq 600$ mm, $0.5 \leq \text{thk} \leq 1$ mm, nes
275	720924	Flat rolled prod, i/nas, in coil, cr, $w \geq 600$ mm, less than 0.5mm

		thk, nes
276	720941	Flat rolled prod, i/nas, not in coil, cr ≥ 600 mm wide, ≥ 3 mm thk, nes
277	720990	Flat rolled prod, i/nas, not in coil, cr ≥ 600 mm wide, nes
278	721012	Flat rolled prod, i/nas, plated or coated with tin, ≥ 600 mm wide, < 0.5 mm thk
279	721049	Flat rolled prod, i/nas, plated or coated with zinc, ≥ 600 mm wide, nes
280	721190	Flat rolled prod, i/nas, < 600 mm wide, not clad, plated or coated, nes
281	721310	Bars&rods, i/nas, hr, in irreg wound coils, cntg indent, ribs, etc prod d rp
282	721320	Bars & rods, i/nas, hr, in irreg wound coils, of free cutting steel
283	721540	Bars&rods, i/nas, nfw than cold formd/finishd, cntg by wght $\leq .6\%$ carbon
284	721590	Bars & rods, i/nas, nes
285	721610	Sections, U, I/H, i/nas, nfw than hot rolled/drawn/extrud, height < 80 mm
286	721810	Ingots and other primary forms, stainless steel
287	721911	Flat rolled prod, stainless steel, hr, in coil, w ≥ 600 mm, thk > 10 mm
288	722090	Flat rolled prod, stainless steel, cr < 600 mm wide, nes
289	722210	Bars & rods, stainless steel, nfw than hot rolled, hot drawn or extruded
290	722220	Bars & rods, stainless steel, nfw than cold formed or cold finished
291	722230	Bars & rods, stainless steel, nes
292	722830	Bars&rods, alloy steel, o/t stainless nfw thn hot rolled/drawn/extrud, nes
293	722910	Wire of high speed steel
294	730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes
295	730721	Flanges, stainless steel
296	731010	Tanks, casks, drums, cans, boxes&sim contr, i or s, capac ≥ 50 L but < 300 L
297	731210	Stranded wire, ropes&cables of iron or steel, not electrically insulated
298	731450	Expanded metal, iron or steel
299	732010	Springs, leaf and leaves therefor, iron or steel
300	732393	Table, kitchen or other household art&parts thereof, stainless steel, nes
301	732429	Baths, iron or steel, nes
Copper		
302	741210	Fittings, pipe or tube, of refined copper

303	741810	Table, kitchen or other household articles and parts thereof of copper
304	741820	Sanitary ware and parts thereof of copper
305	741999	Articles of copper, nes
Aluminium		
306	760110	Aluminium unwrought, not alloyed
307	760611	Plate, sheet or strip, aluminium, not alloyed, rect or sq, exceedg 0.2mm thk
<i>Contd..</i>		
308	760719	Foil, aluminium, not backed and not exceeding 0.2mm thick, nes
309	760810	Tubes and pipe, aluminium, not alloyed
310	761210	Containers, collapsible tubular, aluminium
311	761410	Stranded wire, cables, plaited bands, etc, alum, steel core, not elect insul
Tin		
312	800700	Tin articles nes
Other base metals, cermets, articles thereof		
313	810910	Zirconium unwrought; waste and scrap; powders
Tools, implements, cutlery, etc of base metal		
314	820420	Wrench sockets including ratchet handles extensions and spinners
Miscellaneous articles of base metal		
315	830241	Mountings, fittings & similar articles of base metal for buildings, nes
Machinery and Equipment		
Nuclear reactors, boilers, machinery, etc		
316	840110	Nuclear reactors
317	840219	Vapour generating boilers nes, including hybrid boilers
318	840890	Engines, diesel nes
319	841320	Hand pumps nes, o/t those of subheading No 8413.11 or 8413.19
320	841891	Furniture designed to receive refrigerating or freezing equipment
321	843590	Parts of presses, crushers & sim mach used in the mfg of wine, cider etc
322	843790	Pts of clean/sort mach etc f seed/grn ...mill/wrkg of cereal ex f-type
323	843830	Machinery for sugar manufacture

324	844520	Textile spinning machines
325	844590	Machinery for producing or preparing textile yarn nes
326	844820	Pts & access of mach of hdg No 84.44 or of their auxiliary machinery
327	844833	Spindles,spindle flyers,spinnng rings & rg travellers for hdg No 84.45
328	845230	Sewing machine needles
329	845380	Mach for makg o repair art of hides,skins o leather nes o/t sewg mches
330	845410	Converters used in metallurgy or metal foundries
331	845510	Tube mills, metal rolling
332	845522	Cold metal rolling mills
333	845530	Rolls for metal rolling mills
334	845899	Lathes nes for removing metal
335	846029	Grindg mach in which pos of 1 axis to an acc to 0.01mm nes f rem met
336	846190	Filg o engravg mach(o/t those of hdg 84.59 o 84.60) etc nes by rem met
337	846693	Parts & accessories nes for use on machines of headg No 84.56 to 84.61
338	846820	Gas-operated machinery for welding nes
339	846921	Typewriters,electric,weighing not more than 12 kg,excluding case nes
340	847920	Mach f the extraction/prep of animal/fixd fats/oil,nes havg indiv func
341	848250	Bearings, cylindrical roller, nes
342	848280	Bearings, ball or roller, nes, including combined ball/roller bearings
343	848410	Gaskets of metal sheeting combined with other material

Contd..

Electrical, electronic equipment		
344	850133	DC motors,DC generators,of an output exceedg 75 KW but nt > 375KW
345	850423	Liq dielectric transf havg a power handlg capacity exceedg 10,000 KVA
346	850612	Mercuric oxide primary cells&batteries of an external vol </=300 cm3
347	850619	Primary cells & primary batteries of an external vol </= 300 cm3 nes
348	851140	Starter motors
349	851850	Electric sound amplifier sets
350	852490	Recorded media for sound or other similarly recorded phenomena, nes

351	853521	Automatic circuit breaker f a voltage > 1,000 volts but < 72.5 KV
352	853590	Electrical app for switchg/protec elec circuits,exced 1,000 volts,nes
353	854012	Cathode-ray TV picture tube incl video monitor tube,B&W/oth monochrom
354	854519	Carbon o graphite electrodes,of a kind usd for electrical purposes,nes
<i>Vehicles other than railway, tramway</i>		
355	870130	Track-laying tractors (crawlers)
356	870210	Diesel powered buses with a seating capacity of > nine persons
357	870321	Automobiles w reciprocating piston engine displacg not more than 1000 cc
358	870600	Chassis fitted w engines for the vehicles of heading Nos 87.01 to 87.05
359	870810	Bumpers and parts for motor vehicles
<i>Aircraft, spacecraft, and parts thereof</i>		
360	880510	Aircraft launching and deck-arrestor gear and parts thereof
<i>Ships, boats and other floating structures</i>		
361	890800	Vessels and other floating structures for breaking up
Miscellaneous Manufactures		
<i>Optical, photo, technical, medical, etc apparatus</i>		
362	902830	Electricity supply, production and calibrating meters
363	903039	Inst & app,for measurg or checkg voltage,current,etc w/o a record dev
<i>Musical instruments, parts and accessories</i>		
364	920300	Harmoniums&sim keyboard inst w free metal reeds&keyboard pipe organs
<i>Miscellaneous manufactured articles</i>		
365	960321	Tooth brushes
366	960630	Button moulds and other parts of button; button blanks

Source: Indian Research Study

Table 2A.6: China's Export Competitive Index against India

HS Chapter	Products	Export Index	Competitive
94-96	Miscellaneous	0.97	
68-70	Glass and porcelain products	0.88	

84-85	Electric machinery and audio-video equipment	0.78
44-46	Wooden products	0.71
50-63	Textiles	0.57
90-92	Optical and medical instruments	0.38
16-24	Foods, drinks and tobaccos	0.32
28-38	Chemical products	0.30
86-89	Transportation equipment	0.11
06-14	Plant products	-0.08
64-67	Shoes and hat	-0.51
47-49	Paper products	-0.59
41-43	Leather products	-0.61
39-40	Plastic and rubber products	-0.65
71	Jewelry	-0.66
25-27	Mineral products	-0.69
01-05	Animal products	-0.70
72-83	Cheap metal products	-0.73
15	Animal and plant grease	-0.94

Source: Chinese Research Study

Table 2A.7: Import-weighted Average Tariffs for India and China: 2001

Chapter	HS Chapter Description	China	India
01	Live Animal	4.5	35.0
02	Meat and edible meat offal	20.3	35.0
03	Fish & crustaceans, molluscs	19.5	35.0
04	Diary produce: birds, eggs	18.1	36.8
05	Products of animal origin	17.0	35.0
06	Live trees and other plants bulb	5.6	16.5
07	Edible vegetables & certain roots	10.0	39.0
08	Edible fruits & nuts: peel or melon	29.3	33.2
09	Coffee, tea, mate and spices	16.9	43.1
10	Cereals	99.6	66.9
11	Products of the milling industry	43.9	35.0
12	Oil seeds and leuginous fruits	100.8	22.1
13	Lac; gums, resins & other vegetable	9.1	35.0
14	Vegetable plaiting materials	7.3	35.0
15	Animal or vegetable fats & oils	31.6	88.8
16	Preparations of meat and fish	22.9	51.1
17	Sugars and sugar confectionery	77.7	46.0
18	Cocoa & cocoa preparations	12.7	35.0
19	Prep. of cereals, floor, starch, etc.	19.3	36.9
20	Prep. of vegetables, fruit, nuts, etc.	27.5	35.0
21	Miscellaneous edible preparations	39.0	48.3
22	Beverages, spirit & vinegar	30.3	133.9
23	Residues & waste from food industries	4.5	35.0
24	Tobacco & manufactured tobacco	36.9	35.0
25	Salt, sulphur, earths & stone plaster, etc.	4.1	15.9
26	Ores, slag and ash	0.0	6.6
27	Mineral fuels mineral oils and products	2.7	17.4
28	Inorganic chemicals compounds, etc.	11.4	28.0
29	Organic chemicals	9.7	27.5
30	Pharmaceutical Products	9.2	34.9
31	Fertilisers	4.2	24.3
32	Tanning or dyeing extracts	12.0	32.2
33	Essential oils and resinous	30.1	37.7
34	Soap, organic surface active agents, etc	15.7	35.0
35	Albuminoidal substance; modified	16.7	35.0
36	Explosives: pyrotechnic products	8.7	35.0
37	Photographic or cinematographic goods	11.4	26.4
38	Miscellaneous chemical products	10.4	32.1
39	Plastics and articles thereof	16.0	35.0
40	Rubber and articles thereof	33.5	34.8
41	Raw hides & skins (other than furskin)	8.8	17.6

42	Articles of leather, saddlery & ham	22.0	35.0
43	Furskins and artificial fur	23.9	17.2
44	Wood & articles of wood	5.6	6.9
45	Cork and articles of cork	8.3	35.0
46	Manufactures of straw, of esparto, etc.	9.0	35.0
47	Pulp of wood or of other fibrous materials	1.0	9.6
48	Paper and paperboard	15.1	23.2
49	Printed books, newspapers, pictures	3.1	24.0
50	Silk	21.4	35.0
51	Wool, fine or coarse animal hair	18.1	15.6
52	Cotton	16.3	7.8
53	Other vegetable textile fibers; paper	12.2	35.0
54	Man-made filaments	25.8	21.7
55	Man-made staple fibres	19.8	23.3
56	Wadding, felt and non-wovens; special	21.7	23.9
57	Carpets & other textile floor covering	23.1	35.0
58	Special woven fabrics; tufted textile	23.5	28.6
59	Impregnated, coated, textile fabrics	16.7	26.8
60	Knitted or crocheted fabrics	20.5	28.3
61	Articles of apparel & clothing knitted	23.4	35.0
62	Articles of apparel & cloth not knitted	23.6	33.2
63	Other made up textile articles	23.2	30.9
64	footwear, gaiters & like; parts of article	24.0	35.0
65	Headgear & parts thereof	24.0	35.0
66	Umbrellas, sun umbrella, walking-stick	14.0	35.0
67	Prepared feathers & down & articles	27.7	35.0
68	Articles of stone, plaster, cement, etc.	13.2	35.0
69	Ceramic products	18.0	27.8
70	Glass and glassware	14.2	34.0
71	Natural or cultured pearls, Jewellery	7.2	35.0
72	Iron and steel	8.2	34.4
73	Articles of Iron or steel	11.4	35.0
74	Cooper and articles thereof	4.0	35.0
75	Nickel and articles thereof	4.4	15.2
76	Aluminium and articles thereof	11.0	25.0
78	Lead and articles thereof	5.1	35.0
79	Zinc and articles thereof	3.9	35.0
80	Tin and articles thereof	7.4	25.4
81	Other base materials; cermets; articles	6.1	33.6
82	Tools, implements, cutlery, spoon, etc.	9.8	35.0
83	Miscellaneous articles of base metal	14.2	35.0
84	Nuclear reactors, boilers, machinery	12.5	22.3
85	Electrical machinery & equip & parts	11.2	23.3
86	Railway or tramway locomotives	4.5	29.6

87	Vehicles other than railway or tram	38.1	38.7
88	Aircraft, spacecraft and parts thereof	3.9	7.4
89	Ships, boats & floating structures	6.6	28.0
90	Optical, photographic, cinematograph, etc.	11.2	23.7
91	Clocks and watches and parts	18.1	29.6
92	Musical instruments; parts & access	19.5	35.0
93	Arm & ammunition; part & access	13.0	35.0
94	Furniture; bedding, mattresses	18.8	35.0
95	Toys, games & sports, requisite	22.5	31.9
96	Miscellaneous Manufactured articles	20.3	35.0
97	Works of art, collectors' pieces	9.6	34.4

Source: RIS based on TRAINS, ITC/UNCTAD/WTO/UNSD, 2003

Appendix for Chapter 3

Table 3A.1: Trade in Services (in percentage and US\$ billion)

Series Name	China				India			
	1995	2000	2001	2002	1995	2000	2001	2002
Services, etc., value added (% of GDP)	30.7	33.4	34.1	33.5	43.6	48.8	49.4	50.7
Services Exports (% of Total Exports)	13.0	10.9	11.1	10.9	17.8	29.6	31.5	32.0
Services Imports (% of Total Imports)	18.6	14.4	14.5	14.2	21.3	21.7	21.8	22.3
Trade in Services (% of Total Trade)	15.7	12.5	12.7	12.4	19.8	25.3	26.4	27.0
Services Exports (BoP, current US\$)	19.1	30.4	33.3	39.7	6.77	19.2	20.9	24.9
Services Imports (BoP, current US\$)	25.2	36.0	39.3	46.5	10.27	16.7	16.3	18.7

Source: WDI 2004

Table 3A.2: Relative Positions of India and China in World Exports of Commercial Services*

Country/ Region	1995			2003		
	Ran k	Value (US\$ billions)	Share World Exports (%)	Ran k	Value (US\$ billions)	Share World Exports (%)
United States	1	189.5	15.9	1	287.7	16
France	2	96	8.1	4	98.9	5.5
Germany	3	80.5	6.8	3	115.6	6.4
United Kingdom	4	70.6	5.9	2	143.4	8
Italy	5	65.3	5.5	6	72.7	4
Japan	6	64	5.4	7	70.6	3.9
Hong Kong, China	9	35.9	3	10	44.6	2.5
Singapore	12	29.3	2.5	18	30.4	1.7
Korea, Republic of	14	25.1	2.1	17	31.3	1.7
Canada	15	21.2	1.8	13	41.9	2.3
China	16	18.4	1.5	9	46.4	2.6
Australia	17	15.5	1	25	20.7	1.2
Thailand	21	14.7	1	28	15.7	0.9
Malaysia	24	11.1	1	29	13.5	0.7

India	34	6.8	0.6	21	25	1.4
Indonesia	37	5.6	0.5	40	6.4	0.4
World		1200	100		1795	100

Source: WTO International Trade Statistics, 2003 and (Table 1.7)

*: Commercial Services are defined as services minus government services

Table 3A.3: Relative Positions of India and China in World Imports of Commercial Services*

Country/ Region	1995			2003		
	Rank	Value (US\$ billions)	Share World Imports (%)	Rank	Value (US\$ billions)	Share World Imports (%)
Germany	1	131.6	10.9	2	170.8	9.6
United States	2	128.4	10.6	1	228.5	12.8
Japan	3	121.6	10.1	4	110.3	6.2
France	4	76.9	6.4	5	83.7	4.7
Italy	5	64.7	5.4	6	74	4.2
United Kingdom	6	57.9	4.8	3	118.3	6.6
Canada	9	29.3	2.4	10	50	2.8
Korea, Republic of	11	27.5	2.3	14	39	2.2
China	12	24.6	2	8	54.9	3.1
Hong Kong, China	15	21.5	1.8	19	25.2	1.4
Thailand	17	18.6	1.5	25	18.3	1
Singapore	19	16.5	1.4	17	27.2	1.5
Australia	20	16.5	1.4	22	21	1.2
Malaysia	23	14.3	1.2	28	17.3	1
Indonesia	25	13.2	1.1	26	18	1
India	28	10.1	0.8	21	21.6	1.2
World		1215	100		1780	100

Source: WTO International Trade Statistics, 2003 and (Table 1.7)

*: Commercial Services are defined as services minus government services

Table 3A.4: Index of Revealed Comparative Advantage

Year	China			India		
	Transport	Travel	Other services*	Transport	Travel	Other services*
1994	0.75	1.41	0.96	1.15	1.18	0.87
1995	0.72	1.08	0.94	1.14	1.19	0.86
1996	0.63	1.41	0.89	1.16	1.22	0.83
1997	0.52	1.39	0.93	0.92	1.02	1.13
1998	0.43	1.52	0.88	0.67	0.81	1.39
1999	0.41	1.43	0.86	0.56	0.67	1.54
2000	0.53	1.47	0.79	0.45	0.55	1.67
2001	0.61	1.51	0.75	0.42	0.47	1.74
2002	0.64	1.50	0.76	0.45	0.42	1.73

Source: Based on data from Balance of Payments Statistics Yearbook 2003, IMF.

Notes: 1.The figures in the table are Balassa's Revealed Comparative Advantage (RCA) Index, computed as:

$R_{ih} = (X_{ih}/X_{it})/(X_{wh}/X_{wt})$, where

R_{ih} = Balassa's index of RCA

X_{ih} = Country i's export of product h.

X_{it} = total export of country i.

X_{wh} = world export of product h

X_{wt} = Total world exports.

A country is said to have revealed comparative advantage (disadvantage) in product h if $R_{ih} > (<) 1$

2. Other Services being, Communications, Construction, Insurance, Financial services, Computer and Information, Royalties and Licence Fees, Other Business Services, Personal, cultural & recreational and Government, n.i.e.

Table 3A.5: Share of Services Trade of India and China in Total World Trade of Services

Years	India	China
1994	0.66	1.52
1995	0.69	1.79
1996	0.69	1.63
1997	0.79	1.92
1998	0.95	1.82
1999	1.10	2.01
2000	1.18	2.18
2001	1.21	2.37
2002	1.34	2.65

Source, Computed from IMF BOP Statistics Yearbook.