

India, China Push for Greater Understanding

by Ramtanu Maitra

Indian Prime Minister Manmohan Singh's Jan. 13-15 visit to China took place at a time when the world was in the midst of a financial meltdown. However, his discussions in Beijing with Chinese Prime Minister Wen Jiabao did not address this burning issue, a high-level source told *EIR*, and neither did the two leaders, each representing more than 1 billion people, make any serious effort to lay the foundation for protecting their large populations from the effects of that financial collapse. For that reason alone, Singh's visit can best be described as a missed opportunity.

In India, the slowdown of the six major industrial sectors, has already begun. In the April to November 2007 period, the core sector index grew 6%, as against 8.9% in the same period of the previous year. Most of these industries, such as power and petroleum, have been hit by supply constraints. Five of the six sectors in the index slowed, coal being the only exception. The growth rate in the index of six infrastructure industries in November 2007 halved to 5.3%, from 9.6% a year ago.

Next Door, But Still Distant

One possible reason that the two leaders were unable, or unwilling, to address these issues, is that China and India, despite their geographical proximity and the age-old interaction between their peoples, have remained politically and economically distant, and little long-term planning has taken place which involves both countries. This is despite the fact that both countries are generating wealth more rapidly now than they had done over the preceding centuries.

However, a number of important issues were addressed during this short visit. Both sides showed a great deal of interest in enhancing bilateral trade. While the trade situation may change due to the economic downturn that is stalking the world, the discussion itself indicates an attempt by each side to ensure a better life for the other. It was pointed out that China has become India's biggest trade partner, surpassing the United States, which held that position for a long time. India-China trade reached \$38.6 billion in 2007, increasing 53% over the \$24.9 billion in 2006, adding \$13.7 billion in one year. During this period, India-U.S. trade was valued at \$34.6 billion, according to Indian government sources.

Both leaders seem confident that the present trend of trade growth will continue, and they revised their existing target of bilateral trade for 2010 from \$40 billion to \$60 billion. It must



Indian Prime Minister Manmohan Singh (left) and Chinese Prime Minister Wen Jiabao exchange signed documents in Beijing on Jan. 14. They took small steps toward cooperation, but there is much more work to be done.

be noted that given the large populations of these two countries, such trade figures are still very low.

However, the growth in bilateral trade has not brought un-mixed joy to New Delhi. Analysts point out that while India managed a surplus of \$7.8 billion with the United States in 2007, according to preliminary figures, India had a deficit of \$9.6 billion with China in that same period. The deficit exists mostly because India supplies raw material in bulk to China, and imports capital goods items.

A statement by Indian Commerce Minister Kamal Nath was welcomed in certain quarters in India. Responding to a joint Sino-Indian task force report that recommended a free-trade agreement (FTA) between the two countries, he pointed out that “negotiations on a free trade agreement between India and China will not start in the near future this year. The Prime Ministers of both India and China in their recent meeting had decided to recommend the report of the joint task force to the commerce ministers of both the countries. We will be holding a meeting on this to decide what we should do.” The statement that nothing would happen immediately was welcomed, because of the weakness of India’s small and medium-sized industries, which suffer an acute shortage of power, water, and other basic physical infrastructure. By contrast, China has invested heavily and successfully in these sectors, and is capable of virtually wiping out a good chunk of India’s tottering small and medium-sized industries, if free trade is established pell-mell between the countries.

During Singh’s visit, India and China signed 11 documents that covered five Memoranda of Understanding,

including cooperation in such important areas as railways and sustainable development of agriculture.

Agricultural Cooperation

It is widely acknowledged in India that strong cooperation between India and China in the agricultural area is of great importance. Once a food-sufficient nation, China, with 1.2 billion of its own people to feed, has now become dependent on imported food grains—rice, in particular. While world food experts worry that China would soon start buying off the entire world rice surplus, and thus make the world food situation more vulnerable, Chinese leaders realize that a powerful country like China should not remain vulnerable to the manipulations of the world food cartel. Such vulnerability, over a

period of time, would not only compromise China’s economic and foreign policymaking capabilities, but would surely undermine its long-term security.

In 2005-06, China imported roughly 5 million tons of wheat and 7 million tons of corn and rice. China does export some specialty rice, but not much. It was a remarkable achievement for China to boost food grain production from 90 million tons in 1949, to 398 million tons in 1997-98. But from 1999 to 2004, production dropped by 70 million tons.

To begin with, China, though almost nine times the physical size of India, has a meager 121 million hectares of arable land, compared to India’s 163 million hectares. In addition, China is losing its arable land rapidly. In the 1990s, China had 125 million hectares of arable land, and observers point out that that may be reduced to 118 million hectares before this decade comes to an end. Analysts point to two reasons why this dangerous situation has been allowed to develop: the demand posed by increasing industrialization and urbanization—commonly identified as a “land-grab” by the *nouveaux riches*—and the perpetual water shortage.

Cooperation in agriculture will benefit India enormously. Indian leaders, lured by exports and foreign exchange reserves, have virtually run down the agricultural sector. Growth in India’s agricultural sector during the present decade averaged close to 1.5%, while GDP growth during the same period averaged about 7.5%.

India’s food production kept pace with China’s, increasing from 50 million tons in 1949, to about 220 million tons today. The tonnage in India appears to be lower than that of

China, but it is not really so. The Chinese include tuber crops like potatoes, taro, cassava, and many other field-grown items in their food grain statistics. Also quite a bit of Chinese production is feed grains, as opposed to food grains.

Because of the land's relatively poor productivity, due to lack of adequate government investment in the agricultural sector and rural infrastructure, India's grain production barely meets demand, and is falling. India now imports wheat in large quantities—about 5 million tons in 2007.

Further, New Delhi's unwillingness to provide adequate credit to farmers has resulted in farmers' large-scale indebtedness to high-interest-gouging private lenders. The drop in agricultural productivity, occasional failures of crops, and the need to borrow money at an exorbitant rate of interest have led to mass suicides by farmers.

The Rural Finance Access Survey 2003, carried out by the World Bank and the National Council of Applied Economic Research in two large Indian agricultural states—Uttar Pradesh (UP) and Andhra Pradesh (AP)—showed that only 19.9% of rural households in UP, and 24% in AP, were indebted to formal credit institutions.

Water and Power

The Chinese news service Xinhua pointed out in 2005 that water shortage in China is expected to reach a climax in 2030, when the country, with the population estimated at 1.6 billion, would have a per-capita water supply of 1,760 cubic meters, according to the Ministry of Construction. It said that this would classify China as suffering a medium-level shortage of water, according to the standard of the United Nations, said Vice Minister Qiu Baoxing.

China has been short of water for centuries, but this is increasingly becoming a critical issue, with large-scale industrialization and overall growth. China supports 21% of the world's population with 7% of the world's water resources, Qiu said. Growing water pollution adds difficulties, he said. In China, 200 billion tons of wastewater is discharged into rivers annually, causing pollution of varying degrees to 90% of the rivers in the country.

The official also warned of excessive exploitation of underground water, which results in subsidence of land in many cities; Qiu cited Beijing as an example, saying it has sustained land subsidence of nearly one meter a year since the early 1950s.

As the arable land decreases and water shortage increases, China has to put extra effort into making itself once again self-sufficient in food.

The energy requirement has given rise to another problem: Beijing wants to invest heavily in biofuels, which require both large quantities of water and arable land to grow corn or other crops which are made into ethanol and other fuels.

Biofuel investments have increased as China's growing economy has led to record oil imports, reaching 181.6 million tons last year. Zhu Ming, president of the Chinese Acad-

emy of Agricultural Engineering, estimates that the country could produce biofuel equivalent to 150 million tons of petroleum. However, Zhu admits that China's limited land resources, as compared with its huge population, have made policymakers very cautious about developing grain-based biofuels.

Last March, China's State Forestry Administration announced that it would develop 13 million hectares of oil-rich trees—such as jatropha or huanglianmu (*Pistacia chinensis* Bunge)—for biomass energy production in the coming decade. Two months earlier, the state-owned China National Petroleum Corporation (CNPC) and the Forestry Administration signed a framework cooperation agreement to exploit forestry-based biofuels. The CNPC plans that by 2010, it will attain annual production capacities of 2 million tons of ethanol fuel and 200,000 tons of biodiesel.

Breaking the Ice on Nuclear Power

Indian Prime Minister Manmohan Singh and Chinese Prime Minister Wen Jiabao also opened up new areas of cooperation, the most important of which is nuclear power. Cooperation in this area could ensure a very satisfying resolution of China's and India's power and water shortages. Both China and India are power-starved nations with very high growth rates, and both have come to the conclusion that for long-term growth, they have to rely on nuclear power.

There is no doubt that the two countries can cooperate in this area effectively, to chart out the mode of power generation and also the mode of consumption nuclear power. For instance, both India and China are short of water, and small nuclear reactors generating high amounts of thermal energy are most suitable for water desalination and to meet the demands of rural areas. It is necessary for both countries to make rapid strides in jointly developing these small reactors for immediate use.

India has developed its next generation of reactors, which will be thorium-fueled. These will probably come into production within three or four years. While India has the second-largest known reserves of thorium in the world, China has none. At the same time, the Indian design for these reactors calls for breeding uranium-233 (a fissile material not available in nature) from thorium-232 (a fissionable material available in nature), with the use of plutonium. China's enriched-uranium-fueled nuclear reactors will continue to produce plutonium, which, besides its usage in developing nuclear weapons, is not of much use to Beijing.

In addition, the two leaders decided to hold a second military exercise in India. "We have agreed to continue deepening mutual understanding and trust between our armed forces and welcome the successful first exercise in Kunming," Singh said. On the outstanding boundary question, the two sides had "successful" discussions, the Indian Prime Minister said, at a press conference after the talks at the Great Hall of the People.