

# China's Transitions and India's Options

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

**— Napoléon Bonaparte**

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

**— Hu Shih, former  
Ambassador of China to USA**

# It's a Correction Not A Crisis

- Chinese policy makers mishandling lent it crisis like feel
- But China has deep reserves to handle it
- But even China cannot control the market

# The Sudden Devaluation of the Yuan



### SHANGHAI COMPOSITE INDEX

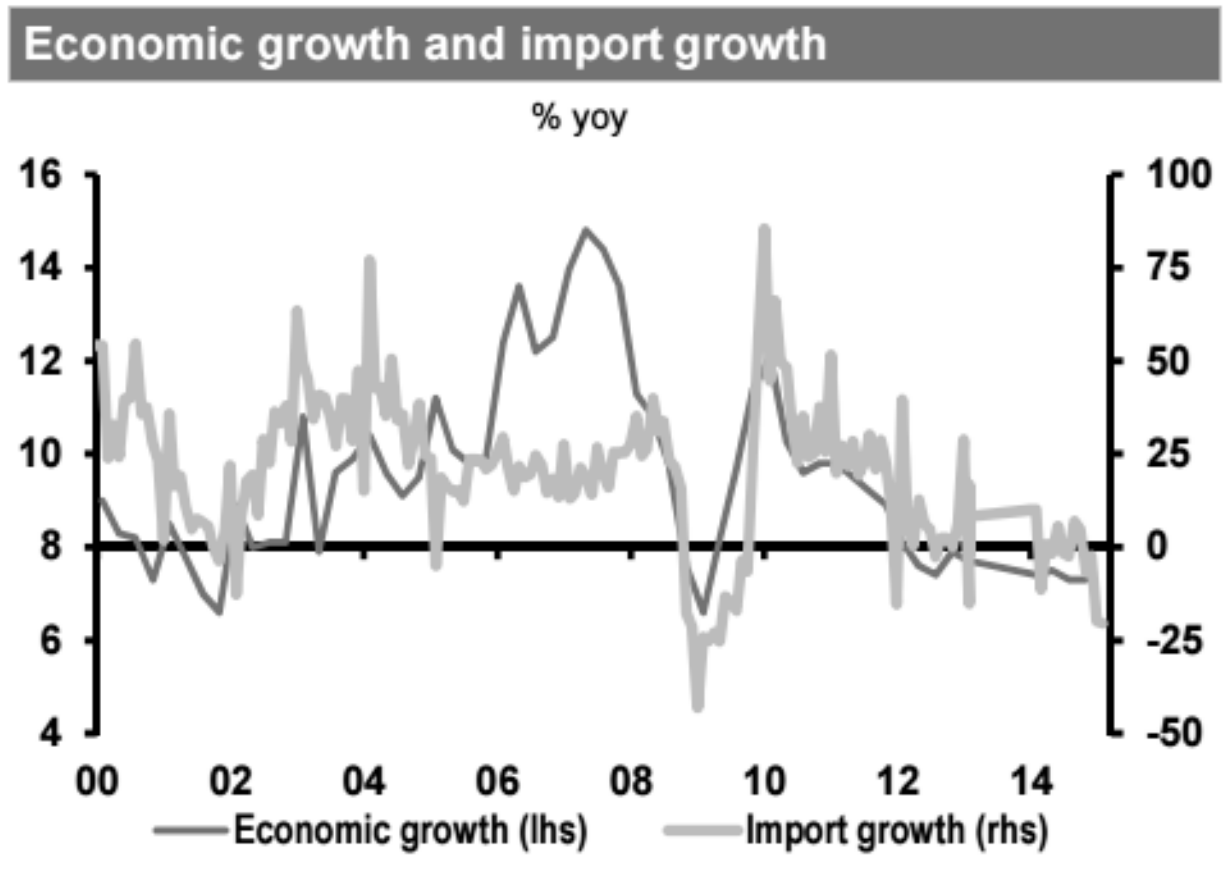


SOURCE: WWW.TRADINGECONOMICS.COM | SHANGHAI STOCK EXCHANGE

# Its Been a Bumpy Landing

- Whether it becomes a Hard Landing Remains to Be Seen ?
- Global reaction especially amongst commodity producers has been sharp
- Brazil just got downgraded to Junk status

# China's Growth and Imports Are Falling Sharply



Source: Thomson Reuters Datastream

# China exports

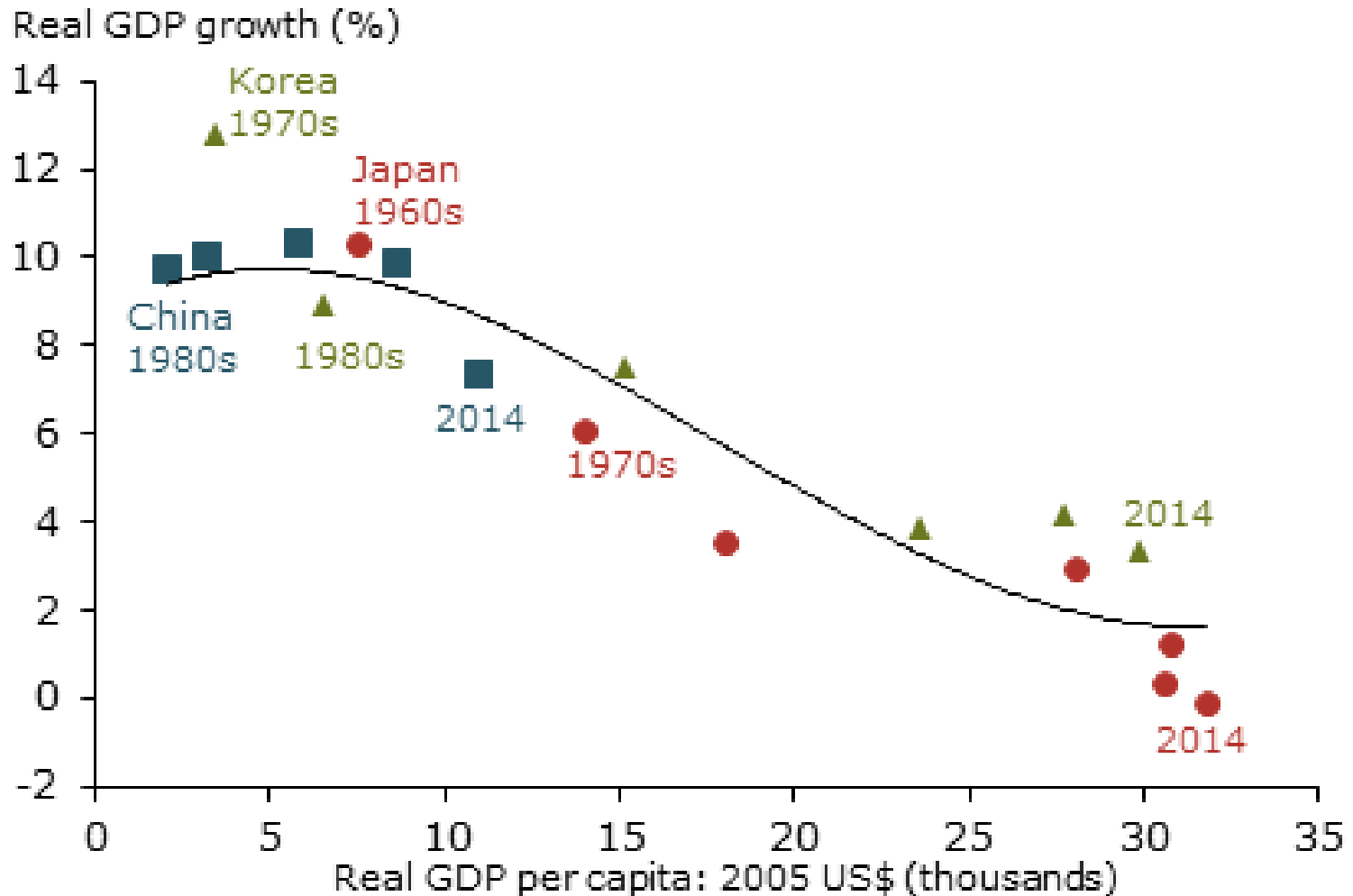
Twelve-month percentage changes



Source: Thomson Reuters Datastream / Fathom Consulting



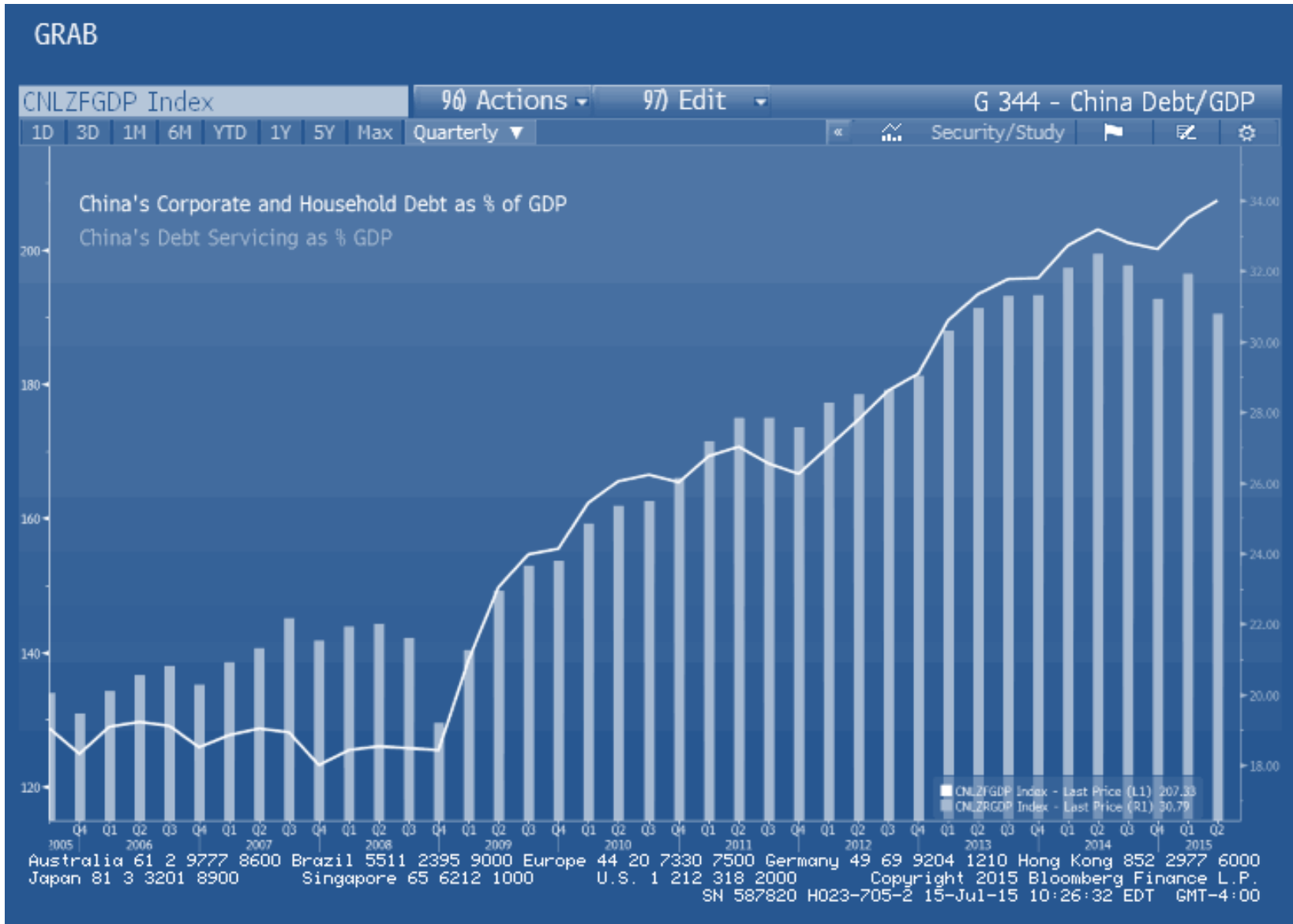
# China Follows Japan and South Korea ??



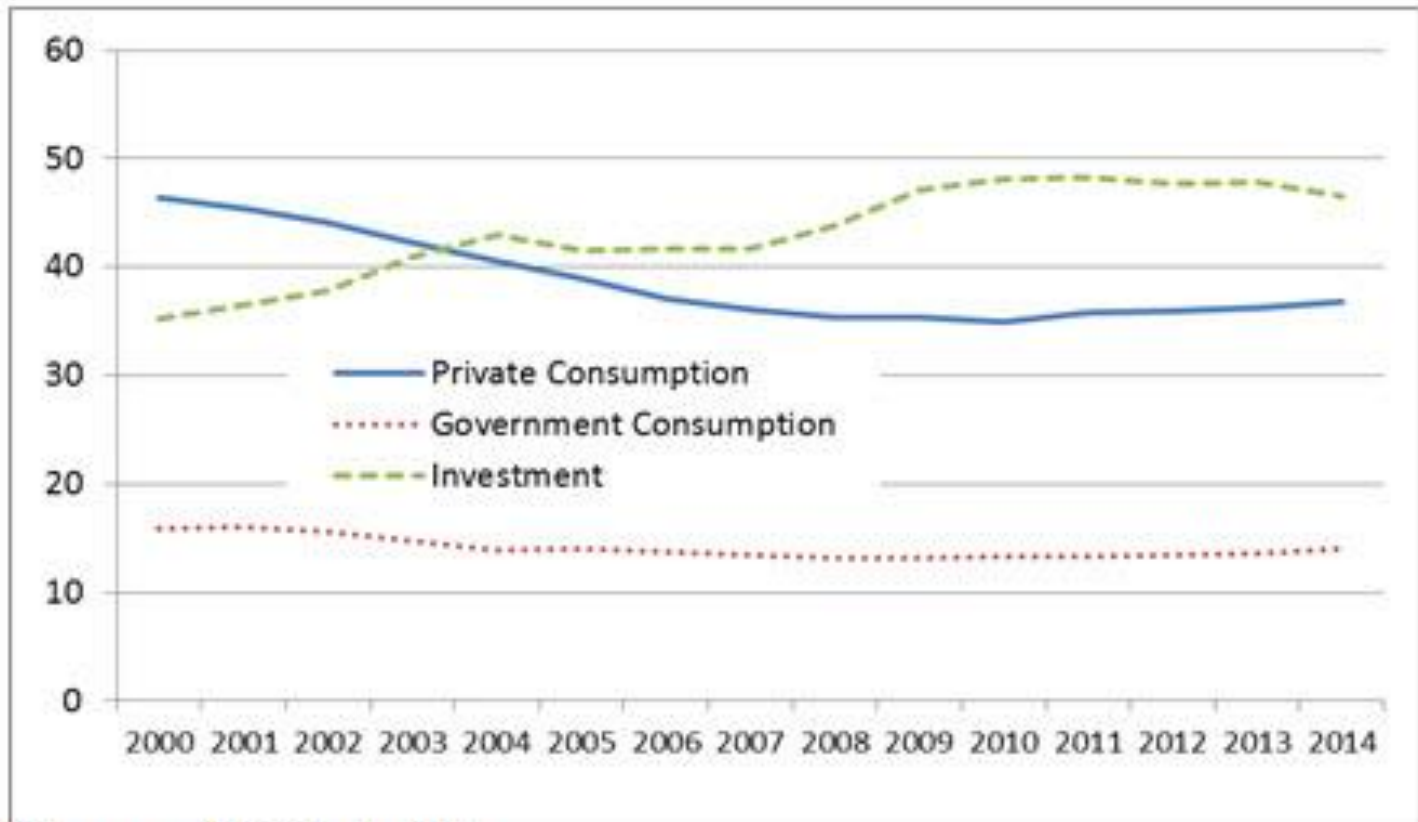
# But China's Transition To Industrial Country Status Looks Complicated

- It has both deflation and high debt
- It continues to Over-Invest
- It needs serious institutional reforms not more controls

# The Rapid and worrisome rise of China's Debt



# China Struggle's With Rebalancing



Data source: EIU CountryData.

Notes: Data for 2014 are estimates. Investment includes gross fixed investment and stockbuilding.

# India Affected More Than Expected

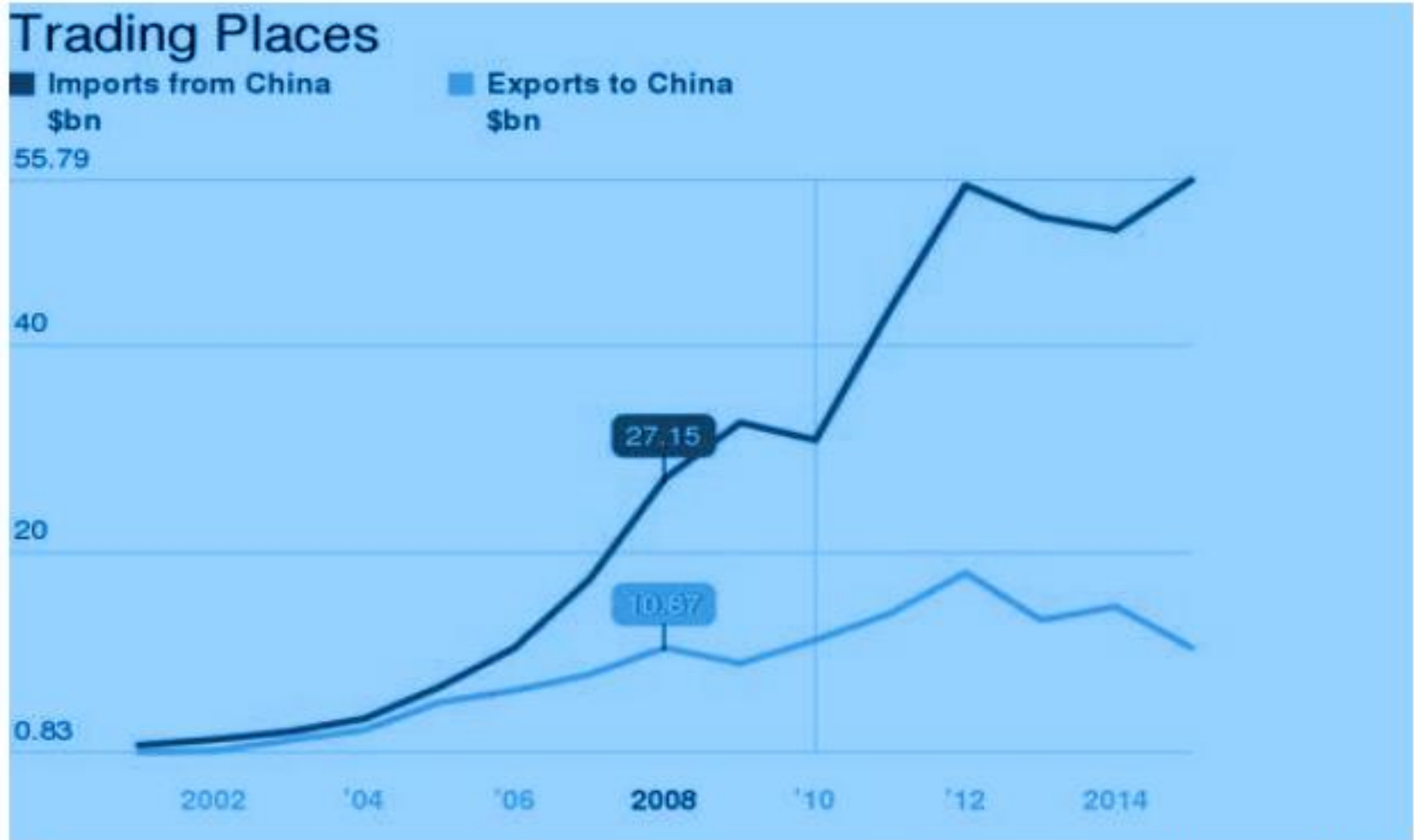
- India's Stock Market Has Taken a Huge Beating
- The Rupee has depreciated against the Yuan
- But Real Effects Have been small

# Rupee Has Depreciated Against The Yuan

- Yuan



## China India Growing Trade Imbalance

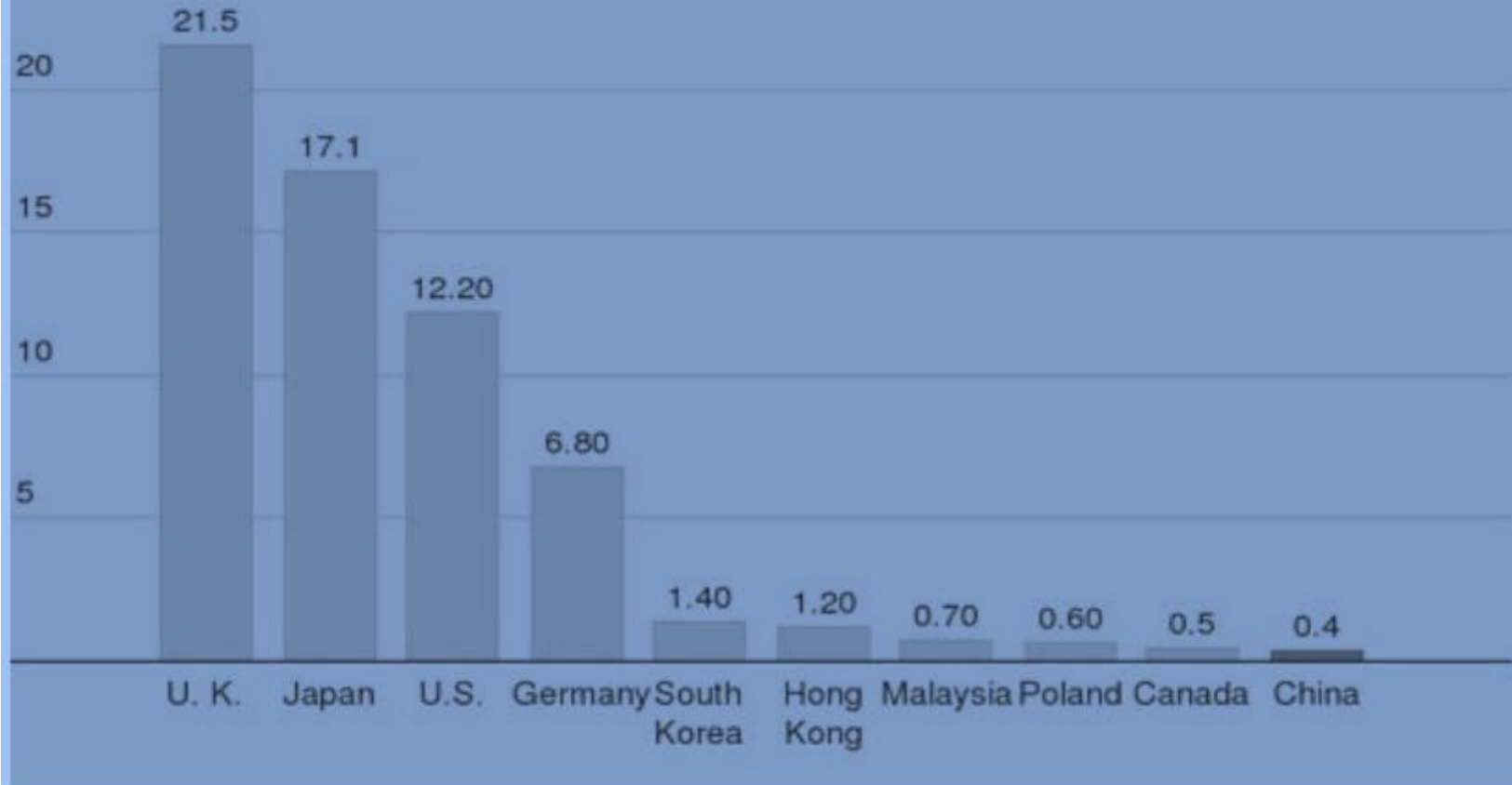


Source : Anant Vijay Kala, Raymond Zhong and Niharika Mandhana , WSJ ,May 13,2015

# FDI Into India by China and Others

## India's Foreign Fans

A sample of FDI into India over the last 14 years in billions of dollars.



Source : Kala, Zhong and Mandhana (2015)



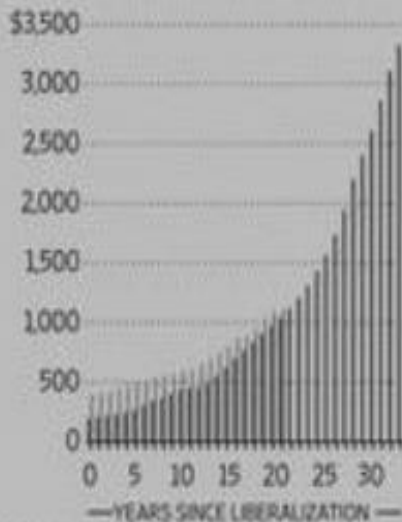


# India Follows China 13 Years Later ??

## Closing the Gap

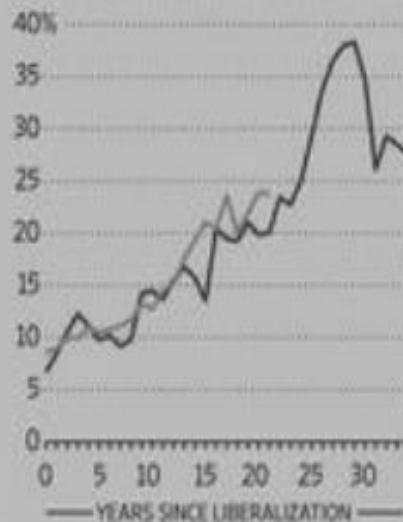
Economic liberalization began earlier for China than for India, but both took off on similar paths.

Gross domestic product per capita, adjusted for inflation

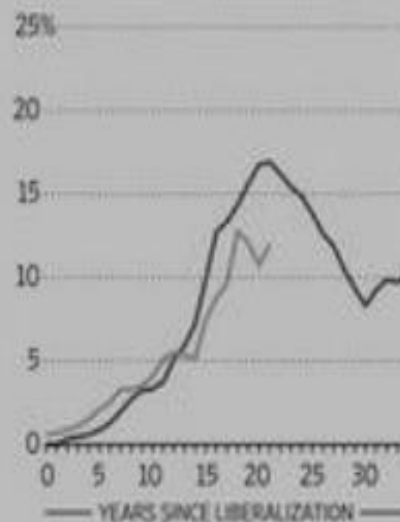


Source: U.N. Conference on Trade and Development

Exports of goods and services, as a percentage of GDP

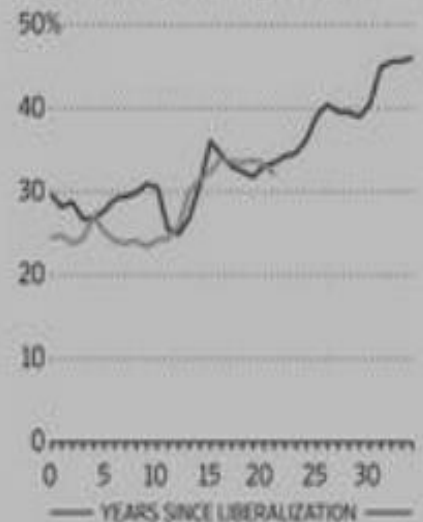


Stock of foreign direct investment, as a percentage of GDP



— China — India

Domestic investment in equipment, infrastructure and other physical capital, as a percentage of GDP



The Wall Street Journal

Source : Kala, Zhong and Mandhana (2015)

# China's New Silk Strategy : Threat or Opportunity ?

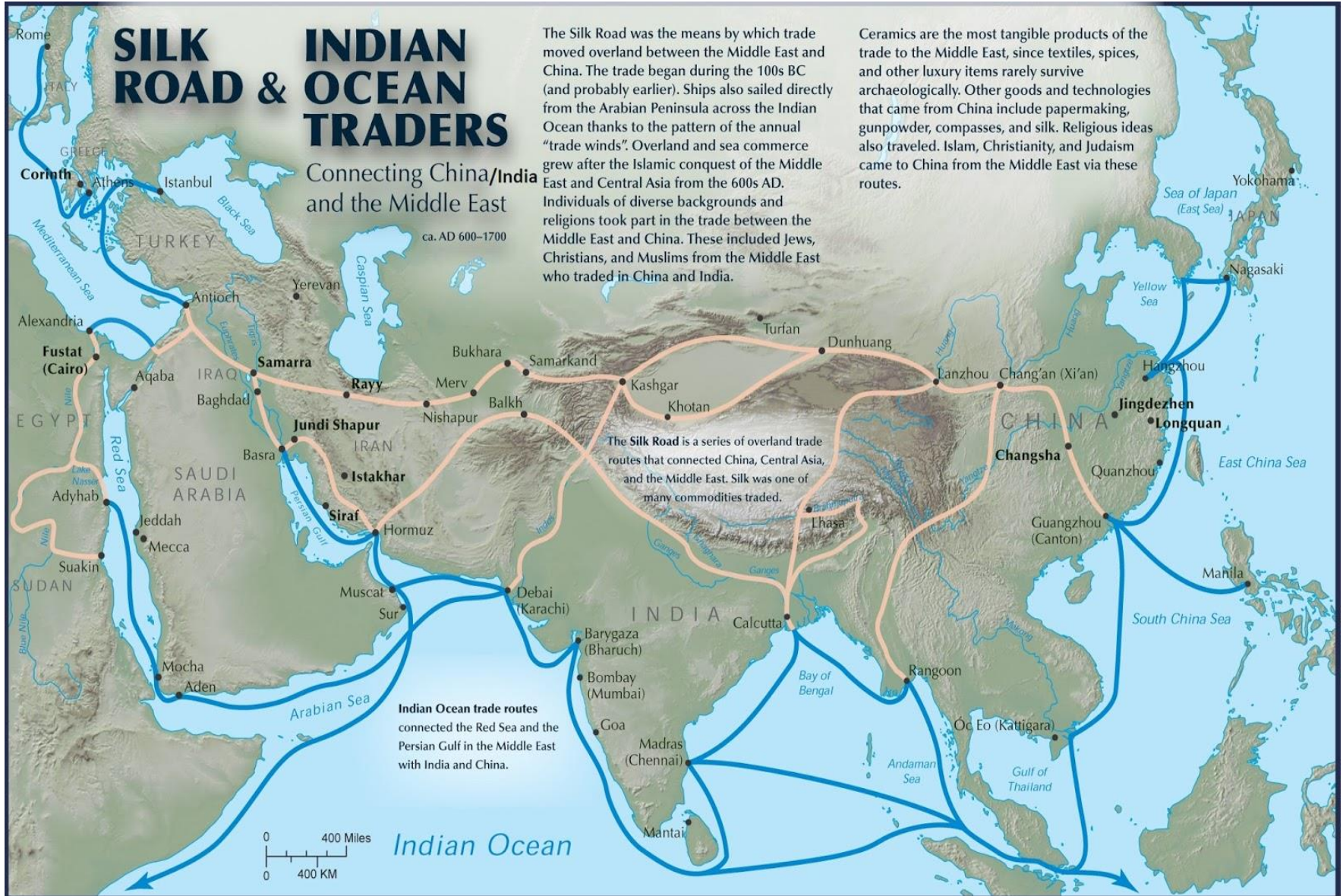
# The New Silk Road



## The String of Pearls



# The Silk and Spice Routes



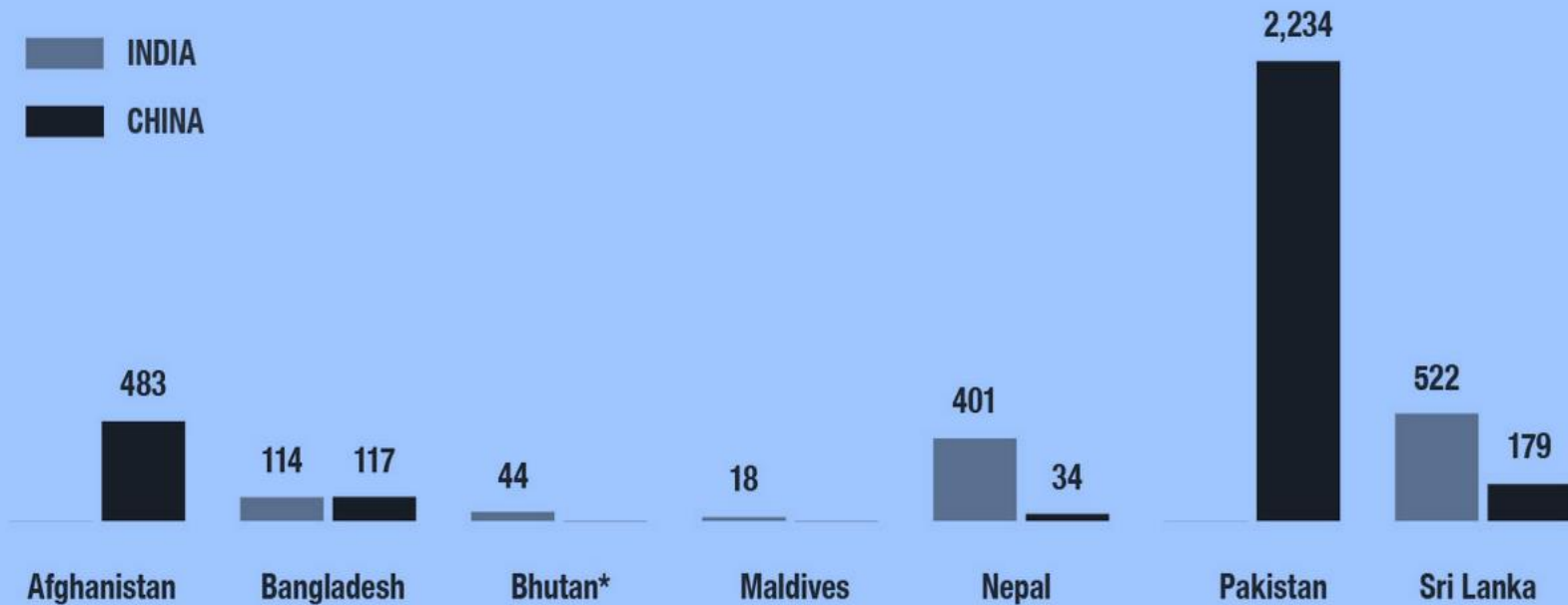
# India And China : Competitive and Cooperative

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

# China's Rising Investment in South Asia

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

INDIA  
CHINA



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

Source: UNCTAD Bilateral FDI Statistics, as reported by China and India

Credit: Ashlyn Anderson, Julia Ro

COUNCIL *on*  
FOREIGN  
RELATIONS

## Remittances in South Asia From China and India

### WORLD BANK BILATERAL REMITTANCE ESTIMATES FROM INDIA AND CHINA TO SOUTH ASIA, 2014 (\$US MILLIONS)

REMITTANCE-RECEIVING COUNTRY	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Total
FROM INDIA	1	4,163	1	-	0	832	2,061	488	7,546
FROM CHINA	0	10	0	57	-	4	16	20	107

Source: World Bank Bilateral Remittances Matrix 2014

Credit: Ashlyn Anderson, Julia Ro

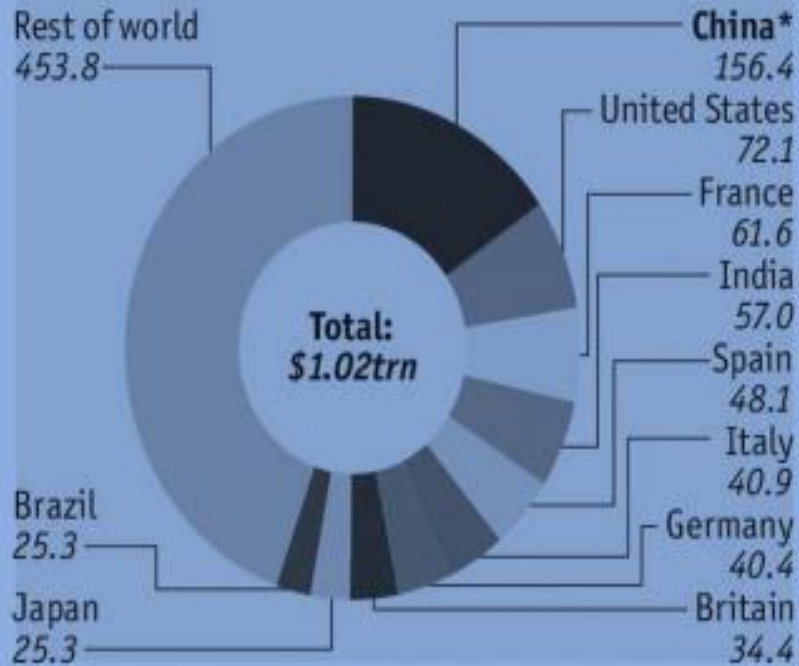
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RELATIONS



Figure 1. Trade and FDI in Africa: China and Others

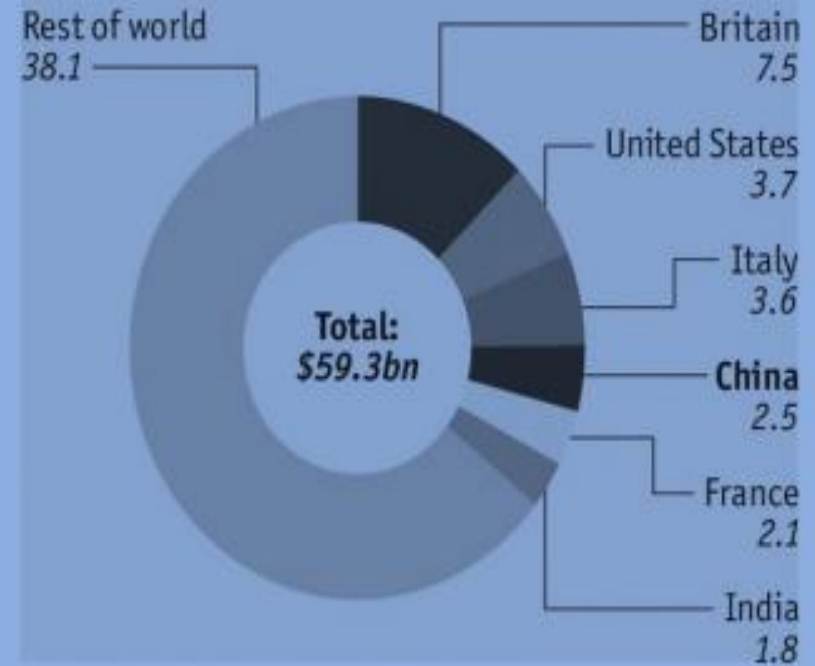
### The scramble in Africa

Goods trade with Africa, 2013, \$bn



Sources: UNCTAD; IMF

Foreign direct investment in Africa, 2012, \$bn



\*Including Macau and Hong Kong

Source : The Economist

# Expect More Turbulence

- China's Transition Will Create More Turbulence
- China Could Also Become More Aggressive
- China Must Cooperate With India to Win Asian century

# Ganesha Speaks : What Lies Ahead For the Yuan??

- Currently, China is going through the Major-period of Saturn and the Sub-period of Rahu. And the Sub-sub period of Mercury will be under operation from 9th August, 2015 to 4th January, 2016. After that Ketu's Sub-sub period will be under operation from 4th January, 2016 till 5th March, 2016. This will remain a crucial period, and there may be some fluctuations as well as drastic changes. *There may remain an uneven pattern in the country's economy, and there may be frequent downs.* Overall, a negative trend may be seen.

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

