

# The 2.5 Billion: India and China Build Trust and Infrastructure

by Mary Burdman

Jan. 6—India was an international crossroads in the last months of 2010, with New Delhi hosting the Presidents of the United States, Russia, and France, as well as the Prime Minister of China, during November and December. While global mischief-makers are promoting geopolitical “conflicts” in India’s relations with the United States and China, in reality, Beijing and New Delhi recognize the strategic importance of their economic relations, and the strategic importance of improving political ties in a world in profound crisis.

There is a long way to go for these Asian neighbors, to realize the potential for cooperation between the two most populous nations (India: 1.2 billion; China: 1.3 billion), but both sides have some grasp of how much the United States and Europe have been devastated by the world crisis—and that nothing is being done to change the policies which led to disaster. Despite setbacks in 2009, China and India are both building their huge internal economies, and expanded cooperation will give this development a real boost, in both their national interests.

There is no way that China and India could stave off the ever-worsening economic debacle in the U.S. and Europe. Yet, were the U.S. to break from its current insane course, cooperation between India and China would create a key platform for world reconstruction.

## Wen Jiabao in India

Before and during the Dec. 15-17 visit of Chinese Prime Minister Wen Jiabao to India, both sides acknowledged that long-standing political differences can no longer be left at the discussion stage. Such problems as thousands of kilometers of still-disputed border, will take time to resolve. While the border has long been completely peaceful, the fact that the border is still unsettled—a direct result of British imperial operations in South Asia and Tibet, into the late 20th Century—has to be made past history; China and India

must increase mutual political trust, in the midst of a dangerous world.

At a conference on India-China relations in New Delhi, Dec. 13, Chinese Ambassador Zhang Yan said that joint relations “need special care in the information age.” Ties can be “very fragile,” Zhang said, and both sides should try to create an environment based on mutual trust to avoid wrong perceptions. He called for government guidance to “avoid a war of words”—a reference to what his discussion partner, Indian Foreign Secretary Nirupama Rao, acknowledged was India’s often fractious press.

This was Wen’s first visit since 2005, when he and Prime Minister Manmohan Singh committed their nations to expanding economic trade and cooperation. Since then, trade has grown substantially, despite setbacks in early 2009, from almost \$19 billion worth in 2005, to \$60 billion in 2010, making China India’s largest trade partner.

This time, both Singh and Wen pledged to bring trade to \$100 billion worth by 2015, and to help this, Wen led what the Chinese Ministry of Commerce called an unusually large delegation, of more than 100 senior representatives from the business community. Beijing has acknowledged that India has a real issue in the \$16 billion trade imbalance in China’s favor, and in New Delhi, Wen reiterated China’s commitment to helping India expand both investment in and exports to China.

## Building Infrastructure

More importantly, the two sides discussed how China can help India build national infrastructure, essential to bringing the Indian economy into the 21st Century. If China and India are able to carry through the agreements—both immediate and longer-term—reached during Wen’s visit, the benefit would be enormous. India’s 12th Five Year Plan, beginning 2012, calls for \$1 trillion worth of investment in transport, power, and other

infrastructure (India Power Secretary P. Uma Shankar said Dec. 10 that the energy sector needs about \$400 billion in investment until 2015, to overcome the huge energy deficit which leaves cities with constant power outages and millions of villages with no electricity, hampering the economy). Building such infrastructure is exactly what China has been doing in the past 25 years.

India has been unable to reach either the speed or quality which China has achieved in constructing infrastructure; its transport and power sectors are not only totally inadequate for the needs of its huge population, but are rapidly falling behind population growth. Project construction takes two to three times longer in India than it does in China, which has discouraged Chinese investors. Despite its infrastructure-building policy, India has not modernized its construction industry, unlike China, where the rate of building advanced railroads, power plants, and modern cities, has kept accelerating, made possible by technological breakthroughs and a developing labor force.

Indian Foreign Secretary Nirupama Rao, speaking at a China-India forum hosted by the Federation of Indian Chambers of Commerce and Industry in New Delhi Dec. 14, before Wen's arrival, emphasized that China's national infrastructure program is both a model and a resource for India. "We need more investment from China to India, especially in the growing infrastructure sector. The kind of achievements that China has recorded when it comes to building of infrastructure and building of the new China, are certainly an example for us to study with great interest," she said. "India needs greater synergy and dialogue to explore the lessons that we could draw from the Chinese model of infrastructure development, for the benefit of the business and engineering community of the countries.

"As far as the global economy is concerned, the way we have performed in the wake of the global economic recession, and the kind of challenges we have faced, and the manner in which we were able to turn those challenges into opportunities, have penetrated both our economies." Rao, a former ambassador to China who met Chinese Foreign Minister Yang Jiechi in Beijing in November, said India looks forward "in the real and absolute sense, to building bridges with China and understanding China better, creating more of a beneficial relationship."

Ambassador Zhang responded: "When China and India join hands, they can make a positive impact, not just in their respective countries but on the world at



Press Information Bureau of India

*Indian Prime Minister Manmohan Singh (left) and Chinese Premier Wen Jiabao are interviewed by the press in New Delhi, Dec. 12, 2010. The two leaders pledged to expand trade between them to \$100 billion by 2015.*

large." This is essential, he said, because both countries face enormous development challenges.

The Indian *Financial Express* pointed out Dec. 14, that China's own strategic shift towards expansion of its huge internal economy, away from dependence upon exports to the crisis-hit EU and U.S. markets, will offer real opportunities for India. "The time is ripe for Indian companies to explore and capture the Chinese market as the dragon focuses on creating domestic demand in a change of its traditional export-led economic growth strategy post-recession," the *Express* quoted Anil Bhardwaj, secretary-general of Fisme, which represents small and medium-size enterprises.

In addition, Chinese banks have shown interest in financing infrastructure projects in India, in both power and transport sectors. Chinese investment would be much less costly than any from other sources, and "could help infrastructure projects here facing fund crunch," the *Express* reported. Already, India's Reliance Power has received \$10 billion from Chinese banks to buy equipment from Shanghai Electric, for its Sasan power

FIGURE 1



project.

### Delivering the Goods

On Dec. 16, the delegations from both sides signed cooperation deals worth at least \$16 billion, as well as banking and financial agreements. In his speech to the Indian Council of World Affairs that day, Wen said that he is particularly impressed with the way the “hard-working, talented and great people” of India had handled the impact of the global financial crisis. “I congratulate you,” he said. “As a fast-growing big country with over a billion people, India should and can play an increasingly important role in international affairs.”

Singh, as he opened the discussions, said: “Our relationship has assumed global and strategic significance. The growing interdependence of nations provides both the opportunity and the obligation for India and China to cooperate together to meet the challenges facing the international community.” In their Joint Statement, both sides agreed to establish a Strategic Economic Dialogue and to promote Indian exports to China, including in the pharmaceuticals and IT sectors, where India has a strong advantage. India welcomed Chinese enterprises to invest and participate in India’s infrastructure development such as in roads, railways, and the manufacturing sector.

As the *Business Standard*, India’s financial newspaper of record, responded to Wen’s visit, Indian “officials and analysts pointed out that, with the Western world still mired in the throes of economic recession, the Chinese seemed to have decided that it was imperative to

take a long-term view on India and push for ‘an expansion in India’s market.’” Private Indian power companies “are all joining the queue to buy Chinese equipment, arguing that the competitive pricing, fairly decent quality, fast delivery and commissioning were unbeatable.... But what is fascinating is that even official Delhi seems to have bought into Beijing’s determination to deliver the goods. It is believed that Planning Commission Deputy Chairman Montek Singh Ahluwalia, has expressed considerable pleasure at the manner in which the Chinese are delivering on their

promises on the power front, pointing out that if they didn’t, his own growth estimates in this sector would be severely hampered.

“Moreover, several public sector steel plants such as Bhilai, built with Russian help in the 1950s, are now looking to the Chinese for help with restructuring and modernisation. The Chinese have shown to us that socialism still lives, although through the capitalist route, one Indian official commented wryly.”

### Political Agreements

Wen Jiabao and Manmohan Singh “decided to establish the mechanism of regular exchange of visits between Heads of State/Government,” and put a joint hotline into operation. Wen invited Singh to visit Beijing next year. While Wen told the Indian Council of World Affairs that the border issue “will take a fairly long period of time” to solve, he said that “China takes seriously India’s concerns about trans-border rivers.” Almost all of Asia’s great rivers rise in the Tibetan plateau in China, but are also subject to big changes in water flow, including flooding, from the monsoon rains on the Indian Subcontinent. Cooperation in developing these rivers could make a huge difference in power generation, irrigation and water supply, and safety from floods, for the populations of China, India, Bangladesh, and Pakistan.

The two sides discussed other key issues of regional security, including the war and opium trafficking in Afghanistan and Pakistan, the latter, a long-term close ally of China, and to which Wen travelled, after leaving

India. According to reports, Wen held a long conversation on Pakistan with Singh and other Indian key officials, stressing the need for regional support in a difficult situation.

It is notable that relations are much better on the Southeastern front. Immediate and potential economic cooperation, especially in rail, power, and other infrastructure, among Bangladesh, Myanmar, and Nepal, with India and China, are in everyone's interests. Here, Bangladeshi Prime Minister Sheikh Hasina is playing a pivotal role, securing agreements during her visits to both New Delhi and Beijing last year, which will benefit the landlocked states of northeast India, Nepal, and potentially southwestern China. This type of cooperation would also benefit the smaller nations of the region, and would undoubtedly be welcome.

The Indian side also raised the issue of China giving only stapled visas to Indian residents of Jammu and Kashmir, a bureaucratic measure that implies non-recognition of New Delhi's full sovereignty in the region. There are indications, however, that Beijing will resolve this problem. On Dec. 19, Indian Ambassador to China S. Jaishankar told China's CCTV that the two nations agreed to "appropriately resolve" the Kashmir visa

issue. The two leaders had "candidly discussed" the problem, he said. Jaishankar was positive on trade. "Let me make a prediction. We will reach the goal much faster than 2015. I think to reach it what we need to see is much more balanced trade picture," he said. "We heard directly from the prime minister himself that China would be more open in all these areas," such as Indian pharmaceuticals, IT, and agriculture, he said.

At a New Delhi seminar Nov. 2, sponsored by FICCI (Federation of Indian Chambers of Commerce and Industry) and the Brookings Institution, India's National Security Advisor Shivshankar Menon said that India has an "overriding strategic interest" in developing better relations with China. Asked whether ties with China would figure in discussions with U.S. President Obama, who would arrive a few days later, Menon said that India's foreign policy is genuine non-alignment. On China, he said: "As we face the big issues, we do this in a cooperative manner so that we can negotiate solutions to the problems. We have an overriding strategic interest in letting relations grow in a healthy manner." The basis for these two huge nations realizing their joint strategic interests has been laid; the next necessary step is building their economies.

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