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Downturn Heightens China-India Tension on Trade

Shrinking World Demand for Exports Sparks Complaints of Dumping, Protectionism Between Possible Asian Allies

By PETER WONACOTT

NEW DELHI -- Spats over toys, tires and iron ore are stoking tension between China and India, as the two Asian giants try to pry open each other's markets and soften the impact of the global economic slowdown.

China's exporters covet a growing India to help offset slowing demand from the U.S. Yet India is accusing Chinese companies of swamping its market with what it can't sell elsewhere, and has lodged antidumping cases against China at the World Trade Organization. The trade disputes are testing efforts to improve what's long been a prickly relationship between the two neighbors.

"We've always said the world is large enough for India and China, but we have a problem with a surge in exports that hurts Indian industry," said Indian commerce secretary, Gopal K. Pillai, in an interview. "It's a cause for worry."

On Thursday, officials from Indian and Chinese commerce ministries met in New Delhi to find common ground. The two governments agreed to set up a working group that would meet every few months on trade issues before they reach the WTO. Zhong Shan, China's vice trade minister, said Beijing wasn't considering retaliating against India, but didn't rule out taking future action at the WTO.

"I believe both countries have the ability to talk through problems," he told reporters. "Both economies can work out of the shadows of the current crisis together."

The two nations often have touted their potential to join forces. Their growing economic heft and developing-country status could make them allies in setting prices for natural resources, partners at trade forums and big buyers of each other's goods, officials from both countries say.

China is India's largest trade partner. Bilateral trade rose 34% to \$51.78 billion in 2008 from the year earlier, according to Chinese government statistics.

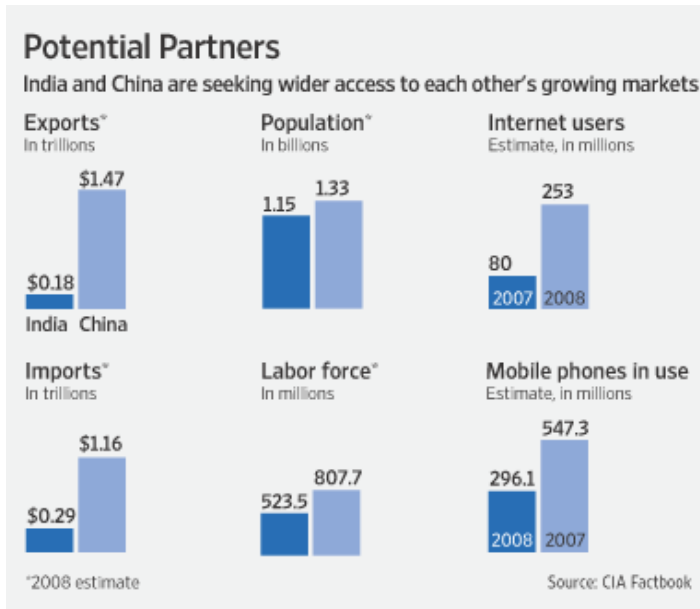
While trade has flourished, frictions haven't eased much -- and might be getting worse. Recent disputes highlight how tough times have hardened the economic rivalry.

This year, India blocked Chinese toy imports for safety reasons before relaxing the ban for some products. On Wednesday, China raised India's toy ban during a WTO discussion on technical barriers to trade. India has about a dozen antidumping cases against China outstanding at the WTO, including investigations into export surges of truck

tires and industrial chemicals.

The disputes partly reflect the jostling of goliaths in a slowing global economy. India seems more reluctant than China to open domestic industries that haven't faced much foreign competition, according to Pranab K. Bardhan, an economist at the University of California, Berkeley who studies the Chinese and Indian economies. "India is among the least globalized countries in the world," he says.

By contrast, China's exports account for more than one-third of its economic output, and the decline has been sharper. In February, China's exports fell 26% from a year ago. The IMF projects China's economy will grow 6.7% this year, off from the 9% growth the year before.



As Chinese exports slow and factory jobs disappear, Beijing has come under pressure to combat signs of foreign protectionism. India may not generate the same demand as the U.S., but its barriers to a big and growing market are cause for concern, says Wen Fude of the Institute of South Asian Studies at Sichuan University.

"Most of these trade frictions created by India towards China are unreasonable," he says.

Indian officials counter that while China talks about free trade, what it practices is something different. Mr. Pillai, the commerce secretary, says Beijing subsidizes exporters, obstructs Indian farm

imports and supports Chinese companies who prey upon vulnerable Indian industries.

"The fundamental problem is that China isn't a market economy," he says. A plaque at the commerce ministry entrance draws a clear distinction with its neighbor. "India: Fastest Growing Free Market Democracy," it says.

Even in complementary trade areas, there have been problems recently. Indian trading companies have complained that Chinese steelmakers have backed away from orders of Indian iron ore after reducing production, causing major losses.

Some see the potential for China and India to work through their differences by doing more business together. Having been through an infrastructure boom of its own, China could help India's build-out of roads, bridges and airports, according to Anil Gupta, a professor at University of Maryland and co-author of "Getting China and India Right."

Chinese executives who are doing business in India complain that distrust remains part of the commercial relationship. The two countries fought a 1962 border war, which India lost, and some of the territory between them remains unsettled. Chinese investments also have been subjected to rigorous security reviews; work visas have been a problem for some executives.

Mr. Pillai says out of 38 proposals, only two Chinese projects have been rejected on security grounds; thousands of Chinese work in India without visa problems, he adds.

India and China still are far from forging a broad economic alliance that some officials envision. Despite both countries

clashing with the U.S. on farm imports at the Doha Round of trade talks, they continue to compete fiercely -- for export markets, energy assets and investment projects. "Cooperation hasn't really worked," Mr. Pillai says.

—Vibhuti Agarwal in New Delhi and Sue Feng in Beijing contributed to this article.

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