Promotion of Trade and Investment between People's Republic of China and India: Toward a Regional Perspective

BISWA N. BHATTACHARYAY AND PRABIR DE

Open regionalism and integration between the world's two largest developing countries, People's Republic of China (PRC) and India, in trade, investment and infrastructure can foster outward-oriented development, and economic and social benefits that could result in poverty reduction. In view of the increasing trend of regional integration, particularly the expanded European Union and North American integration, the opportunity costs of not moving toward greater economic integration between neighboring countries the PRC and India, which have much in common, could be increasing. This paper discusses the possible areas of PRC–India economic cooperation and economic integration between the northeastern region of India and southwestern provinces of the PRC.

I. INTRODUCTION

The economic relations between the People's Republic of China (PRC) and India and the relative spheres of their activities are the most current issues in their internal relations. With the ongoing economic reform program and market liberalization process gradually extending to most sectors of both economies, the scope and responsibilities of the governments in the PRC and India have increased and new vistas for economic opportunities have opened up between the two countries.

The PRC and India have strong historical and cultural links and share many similarities. They are two of the world's most populous countries, sharing between them over a third of the world's population. They also possess centuries-old civilizations and unique histories. After pursuing inward-oriented policies in the early years of their development, the PRC (since 1978) and India (since 1991) have increasingly deepened their economic integration with the rest of the world. While the PRC has emerged as one of the world's fastest growing economies,

Biswa N. Bhattacharyay is Principal Reform Coordination Specialist in the Office of the President, Asian Development Bank, Manila, and Prabir De is Associate Fellow at the Research and Information System for Developing Countries, New Delhi. An earlier version of the paper was written for the International Symposium on Trade and Development between Tibet Autonomous Region (TAR) and Its Neighbouring Countries organized by the China International Centre for Economic and Technical Exchanges, Ministry of Commerce, Government of People's Republic of China, and the United Nations Development Programme, held on 21-23 September 2004 at Lhasa, TAR. The views expressed in this article are those of the authors and do not represent the policy or views of the Asian Development Bank or Research and Information System for Developing Countries. The authors are grateful to two anonymous referees for their useful comments on an earlier draft of the paper. The usual disclaimers apply.

India's economy with a robust average annual growth rate of 6 percent in the 1990s is also showing a healthy growth momentum. The PRC and India have not only attempted to deepen their economic relations with world economies but also between themselves. Bilateral trade and investment links between the two countries have grown rapidly over the past few years, suggesting the presence of complementarities and unexploited potentials.

Substantial complementarities characterize the economic structures of the PRC and India. While the PRC has emerged as the manufacturing hub of the world, India's strengths in knowledge-based services have gained international recognition. Opportunities for fruitful cooperation exist in many areas, such as manufacturing, services, and investment (Agarwala 2002). Their geographical proximity and large-size economies would facilitate exploitation of these synergies. They can also pool resources for improving their competitiveness with neighboring countries particularly those in South and Southeast Asia. They can fruitfully share their development experiences and cooperate in several areas, especially in the critical area of energy security. The PRC–India economic cooperation has the potential to benefit over a third of humanity. The complementary strengths of the two economies can be exploited for mutual benefit. Cooperation could also be instrumental in building closer border trade to enable both to regain their place in the world economy as they had before the 18th century (Singh 2005). This would also facilitate poverty reduction in these countries particularly in the border areas where there is a relatively high incidence of poverty (Lama 2005).

Economic cooperation between the PRC and India has been deepening in recent years. Both countries have decided to focus on economic issues instead of political and security matters (Government of India 2005a). They respect each other's success and work for common interests, particularly in improving the quality of life of their citizens. Benefits of closer economic cooperation have been reflected in rising bilateral trade between the two countries.[1] PRC–India bilateral trade has shown rapid and sustained growth in the last decade, from US$338.54 million in 1992 to US$7.60 billion in 2003. In view of their trade complementarities, based on comparative and competitive advantages, the potential for further enhancing trade is significant. Between 1995 and 2003, bilateral trade between the PRC and India maintained a relatively robust annual growth rate of 26.4 percent, higher than the average growth rate of the total foreign trade volume in the same period for both countries. In 2003, bilateral trade volume stood at US$ 7.60 billion, of which the PRC's exports amounted to US$ 3.34 billion and India's exports amounted to US$ 4.25 billion. In 2004, India became the 11th largest trade partner of the PRC and the largest in South Asia (De 2005b). Bilateral trade reached a total of US$ 13.60 billion in 2004, representing an increase of 79.1 percent over the corresponding period the past year. Despite this rapid growth, India's share in the PRC's imports in 2003 was

[1]After the India–China War in 1962, both countries officially resumed trade in 1978, and signed a trade agreement (most favored nation agreement) in 1984.

just 1.03 percent, while the PRC's share in India's imports was less than 5 percent (De 2005b). This suggests that the potential for trade expansion is very large. Each side is now focused on taking advantage of rising opportunities for mutual gains, rather than competing with each other.[2]

The emergence of the PRC and India as major economic forces in the world and their greater openness are the key factors for pushing closer economic integration between these two countries. Because of the presence of resource-based complementarities between the PRC and India, properly paced regional integration can help boost both the quantity and quality of economic growth, bringing benefits to all participating countries or economies (Ray and De 2005). Cross-border initiatives relating to trade facilitation and investment promotion can be instrumental in generating jobs, increasing subregional gross national product (GNP), improving intra-subregional trade, and deepening the economic fabric.

One of the key instruments for economic development and poverty reduction is regional cooperation and integration (Venables 2003). Regional cooperation and integration in trade, investment, and infrastructure development can foster outward-oriented development and generate economic and social benefits. Open regionalism and integration between the PRC and India, two of the world's largest developing countries, could be a countervailing power to withstand the excesses of economic globalization. With the unsuccessful World Trade Organization (WTO) trade talks in 2003 at Cancun, there is an increasing trend toward regional integration, such as bilateral and regional preferential trade agreements in Asia; and in other regions, particularly the expanded European Union (EU) and North America integration through the North American Free Trade Agreement (NAFTA) and Central American Free Trade Agreement (CAFTA). In view of this, the opportunity costs of not moving toward greater economic integration between the PRC and India, and among neighboring countries, could be enormous.

The southwestern part of the PRC (SWC) comprises three provinces (Sichuan, Ghizhou, Yunnan); two autonomous regions (Tibet, Guangxi); and one municipality (Chongqing). The northeast region (NER) of India consists of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. SWC and NER together have about 30 million people (out of a total 120 million in 2001) living below the poverty line (Ray and De 2005).[3] This is

[2]In June 2003, the PRC and India signed the Declaration on Principles for Relations and Comprehensive Cooperation and agreed to hold the ministerial meeting of the Joint Economic Group (JEG). A compact Joint Study Group (JSG) composed of government officials and policymakers was organized to examine the potential complementarities between the two countries to enhance trade and economic cooperation. The objective of the JSG was to develop a program for enhancing the PRC–India trade and economic cooperation for the next five years. The JSG's report entitled "Report of the India-China Joint Study Group on Comprehensive Trade and Economic Cooperation" exchanged at the highest level during the visit of the PRC Premier in India in April 2005.

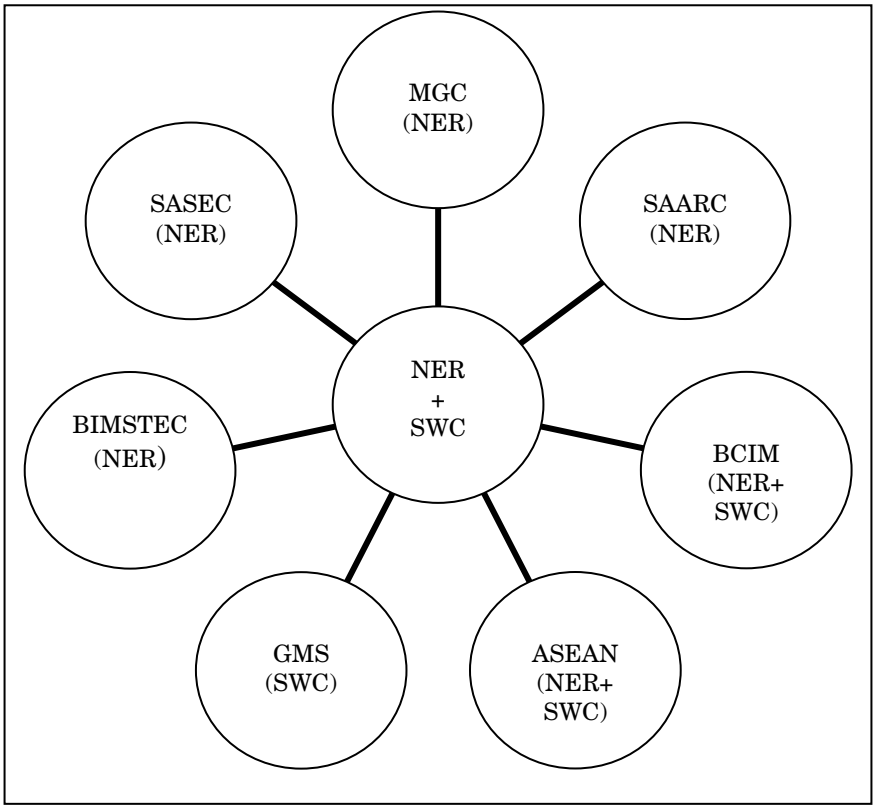
[3]The incidence of poverty excludes the Tibet Autonomous Region (TAR).

indeed alarming, because in the whole of the PRC and India, about 570 million people are still living with less than one dollar a day.[4] The SWC and NER are among the less developed regions of the PRC and India, respectively, but have very rich resource endowments, natural or otherwise. The forest deposits of the states of Assam and Arunachal Pradesh; the hydrocarbon resources of the states of Assam, Meghalaya, and Tripura; and the hydropower potential of Arunachal Pradesh, Meghalaya, and Manipur, can supply an enormous amount of inexpensive energy if developed and used in a cooperative manner. The abundance and variety of forest, livestock, and mineral resources in this region are remarkable. The huge labor force with suitable training can be mobilized to maximize the benefits from these natural resources, and in the process, transform the region by removing poverty and paving the way to prosperity.

For the people of these less developed but potentially most prosperous regions of the world, the first decade of the 21st century begins with new challenges on environmental sustainability, economic productivity, and international competitiveness. The future quality of life and economic prosperity in this region will depend crucially on how they choose to meet these challenges in a united way. Cross-border infrastructure development in this geographically integrated region is crucial to promote greater trade and investment and consequently attain economic prosperity. Developing border trade between SWC and NER would be crucial for enhancing bilateral trade between the two countries. Opportunities for greater cooperation between NER and SWC could be substantial if we combine the region's (NER+SWC) strategic positioning in the immediate regional and subregional markets (Figure 1).

[4]Specifically, 358 million in India and 212 million in the PRC in 2001, calculated based on the population living below US$ 1 a day in terms of percentage of the population living on less than US$1.08 a day at 1993 international prices (see *World Development Indicators 2005* [World Bank 2005]).

Figure 1. **Linkages with Regional/Subregional Groupings in South and Southeast Asia**



Note: Considers both Track I and Track II initiatives, reported as of June 2005.
NER means northeastern region of India.
SWC means southwestern region of the PRC.
MGC means Mekong–Ganga Cooperation.
SAARC means South Asian Association of Regional Cooperation.
BCIM means Bangladesh, China, India, and Myanmar Economic Cooperation (Kunming Initiative)
ASEAN means Association of Southeast Asian Nations.
GMS means Greater Mekong subregion.
BIMSTEC means Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation.
SASEC means South Asia Subregional Economic Cooperation.

Against this backdrop, this paper discusses the possible areas of economic cooperation between the PRC and India for promotion of trade and investment in a region comprising the PRC's southwestern provinces and India's northeastern states. The paper also attempts to identify the potentials for economic cooperation in different segments of the trading infrastructure. Finally, underlining the importance of bilateral and regional cooperation, this paper concludes with some remarks on policy perspectives in order to deepen economic integration.

II. PROFILES OF NORTHEAST INDIA AND SOUTHWEST PRC

A. Profile of Northeastern Region of India

While focusing on the strength and potential business drives in NER, the assets of this region must be examined as a whole.[5] About 98 percent of this region's borders form India's international boundaries. The region shares borders with the PRC in the north, Bangladesh in the southwest, Bhutan in the northwest, and Myanmar in the east.[6]

The NER has a much lower population density than the rest of India. Low population density has been reflected in low urbanization in this region: only 12 percent of the NER population lives in urban areas. In general, urbanization is low in NER except in Assam and Tripura (Table 1).

Table 1 shows that the NER as a whole represents 8.9 percent of India's geographical area (262,187 sq. km.), 3.8 percent of India's population (39.04 million in 2001), and 2.7 percent of India's gross domesitic product (GDP) (Rs.536 billion in 2002/03). Assam is the largest state of NER; it alone represents 30 percent of NER's geographical area, 68 percent of NER's population, and 30 percent of NER's net state domestic product (NSDP).

The slow progress of NER's economy is reflected in the low growth in income. During 1993–2003, NER's income, represented by NSDP, grew only by 4.3 percent, whereas during the same period, national GDP increased by 7.5 percent (Table 1). NER states are yet to cross the national per capita income average despite successful efforts toward lowering income gaps by some of the NER states like Mizoram, Nagaland, and Sikkim (see Table 1). Studies have also shown that there has been a distinct movement of the NER economies from the primary to the tertiary sector, bypassing the secondary sector (Das 2005a). In addition, Das adds that due to the weak linkage between primary and secondary sectors, the structural shift of the former is found to be very weak in NER, and poor growth of the secondary sector has weakened the base of the tertiary sector, resulting in the region facing rapid unemployment and social unrest.

5In independent India, the eastern Himalaya and Brahmaputra valley of the Indo–Myanmar region comprising the states of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura are identified as a single geographic unit and socioeconomic identity. The political process and administrative convenience legitimized this area as the northeast region (NER) of India.

[6]NER's international border with Bangladesh spans about 2,500 km; with Bhutan 650 km; with the PRC about 1,000 km; and with Myanmar about 1,450 km.

Table 1. **Demographic and Economic Profile of NER**

States	Population 2001 (million)	Population Share in TIP[1] (percent)	Area 2001 (sq km)	Area Share in TIA[2] (percent)
Arunachal Pradesh	1.09	0.11	83743	2.83
Assam	26.64	2.59	78347	2.65
Manipur	2.39	0.23	22327	0.75
Meghalaya	2.31	0.22	22388	0.76
Mizoram	0.89	0.09	21214	0.72
Nagaland	1.99	0.19	16575	0.56
Sikkim	0.54	0.05	7096	0.24
Tripura	3.19	0.31	10497	0.35
NER8	39.04	3.80	262187	8.86
India	1027.02	100.00	2959697	100.00

States	Population Density, 2001 (per 1000 sq km)	SDP Share in India's GDP[3] 2002-03 (percent)	Per Capita Income[4] 2002-03 (Rs.)
Arunachal Pradesh	13	0.09	8958
Assam	340	1.61	6221
Manipur	107	0.16	8048
Meghalaya	103	0.19	9727
Mizoram	42	0.09	10226[5]
Nagaland	120	0.19	11674
Sikkim	76	0.05	11232
Tripura	304	0.28	10255
NER8	149	2.66	9543
India	347		11013[6]

Note: [1]Share in total Indian population (TIP).
[2]Share in total Indian area (TIA).
[3]Represents share of net state domestic product (NSDP) in India's gross domestic product (GDP), considered in current prices (new series on 1993/4 prices). For Mizoram, Nagaland and Tripura, NSDPs consider 2001/2 series.
[4]Represents per capita net state domestic product (PCNSDP), taken at current prices (new series on 1993/4 prices). For Mizoram, Nagaland and Tripura, PCNSDPs consider 2001/2 series.
[5]Author's own estimation as PCNSDP for Mizoram in constant prices is not available.
[6]Per capita NNP, taken at constant prices (new series on 1993/4 prices).

Sources: *Economic Survey 2004–05* (Government of India) and Central Statistical Organisation, Government of India (available: www.mospi.nic.in).

About 70 percent of NER's area is hilly, and the topography varies across the NER states.[7] The plains of the region are mainly made up of separate land masses—the Brahmaputra Valley and the Barak Valley in Assam, and the Tripura plains in the South. In Manipur, the valley is small, comprising only about 10 percent of the total area of the state.[8]

[7]Mountains and hills cover most of Arunachal Pradesh, Mizoram, Nagaland, Meghalaya, and about half of Tripura; one fifth of Assam; and nine tenth of Manipur.

[8]The Brahmaputra Valley stretches longitudinally for about 730 km, from North Lakhimpur to Dhubri district in Assam. The Barak Valley, formed by the river Barak and its tributaries cover the districts of Cachar, Karimganj, and Hailakandi of South Assam. The

Notwithstanding its hilly topography, NER is bountifully endowed with natural resources. About 37 percent of India's river waters belong to NER. The entire region enjoys immense biodiversity in terms of forest coverage; approximately 54 percent of NER's area is covered by forests. According to NEDFC (2003), forest area is highest in Mizoram (75.6 percent) and lowest in Assam (39.2 percent).

NER offers plenty of hydrocarbon and mineral resources in terms of natural gas, crude oil, coal, limestone, etc. It also accounts for 20 percent of hydrocarbon (oil and gas) potential, large quantities of low ash coal resources, limestone and dolomite deposits, as well as a few other minerals such as kaoline and graphite. Assam occupies an important place in India in terms of its hydrocarbon reserves.[9] India's first oil reserve was found in Digboi in Assam in 1897. Both Assam and Tripura offer high natural gas reserves; together they have 48 billion cubic meters of natural gas reserve (see Table 2). Besides, NER also has reserves of approximately 1.04 billion tons of coal,[10] 5.32 billion tons of limestone, and 0.25 billion tons of dolomite. In addition, substantial amount of clay, white clay, kaoline, graphite, quartzite, sillimonite, uranium, etc. have also been mined in NER recently.

The agricultural system of NER is predominantly traditional and almost 90 percent of NER's rural population is dependent on agriculture. The economy of NER is primarily agrarian, but it is deficient in food supply. Naturally, this region imports grain, oilseeds, sugar, meat, fish and eggs, apart from other civil supplies from the rest of India. The diverse agroclimatic conditions coupled with topographical and altitudinal variation has facilitated cultivation of high-quality fruits and vegetables, and several commercial crops across the NER states. The region is immensely rich in horticultural products, plantation crops, and rare forest products. It has abundant forest resources in terms of wood, bamboo, rare herbs, and medicinal plants. NER harvests about 8 million tons of bamboo every year, sharing 54 percent of the country's total annual bamboo production (Government of India 2004). Tea is the major plantation crop in NER, with NER states contributing nearly 77 percent of the country's annual tea production, of which Assam alone produces more than 50 percent.[11] Several other plantation crops like rubber, coffee, etc., have also been introduced in NER in recent periods. However, due to supply-side bottlenecks, the agricultural produce of this region is yet to make a major breakthrough in domestic as well as international markets.[12]

Tripura plain is an extension of the Ganga–Brahmaputra plain. The topography of the hills is generally rugged and vast areas are inaccessible (Government of India 1997).

[9]According to the NER Databank (see http://databank.nedfi.com).

[10]The Makum coalfield in Assam alone shares 95 percent of NER's annual coal production (Government of Assam 2003).

[11]Assam at present has 848 registered tea estates employing over 500,000 people (Government of Assam 2003).

[12]However, looking at NER's vast agro-food processing and horticulture resources, four agricultural export zones (AEZs) have recently been approved by the Government of India

Table 2. **Estimated Major Mineral Reserves in NER[1]**

Mineral	**State**	**Reserve (million tons)**
Crude oil	Assam	70.5
Natural gas[2]	Assam	23.0
	Tripura	25.0
	Total	48.0
Coal	Assam	371.0
	Meghalaya	564.0
	Arunachal Pradesh	91.0
	Nagaland	17.2
	Total	1043.2
Limestone	Assam	463.0
	Meghalaya	4147.0
	Arunachal Pradesh	350.0
	Manipur	6.4
	Nagaland	357.0
	Total	5323.4
Dolomite	Arunachal Pradesh	247.0
Graphite	Arunachal Pradesh	85.0
Sillimonite	Assam	50.0

Note: [1] Data as of July 2002.
[2] In billion cubic meters.
Source: NEDFC (2003).

While NER is potentially strong in natural endowments, this region's access to the international market is constrained by inadequate infrastructure facilities. Inadequate infrastructure facilities could also be a cause for low income growth in NER (Ghosh and De 2005b). In terms of availability of core infrastructure facilities, like rail and road networks, power generation capacity, telephone connections, banking facilities, air networks, etc. NER is still much behind the Indian average (see Table 3). Despite these shortfalls, NER has witnessed relatively better performance of social infrastructure facilities in terms of literacy and infant mortality rates; in both attributes, its achievements are better than the national average. Moreover, contrary to the notion that this region has an underdeveloped transport system associated with high transport costs, there are 12 airports, and the Brahmaputra riverway is perennial and cheapest. And while it is widely believed that that power situation in the region is dismal, it has 38 percent of the country's hydropower potential (see Government of India 2004).

(2005b) in NER: (i) Tripura for pineapples, (ii) Sikkim for floriculture and cherry pepper, (iii) Sikkim for ginger, and (iv) Assam for fresh and processed ginger.

Table 3. **Infrastructure Profile of NER**

Particulars	Unit	NER	India
Railway density (2000/1)	Per 1000 sq km	10.9	21.3
Road density (2000/1)	Per 1000 sq km	394.5	838.9
Power generation capacity (2001/2)	1000 MW	2.4	105.0
PCE (2002/3)[1]	KWH	192.0	503.8
Airports (2004)	Number	12	77
Telephone connections (2000/1)[2]	Per 1,000 population	13	34
Bank branches (2001/2)	Number	1932	65896
Credit deposit ratio (2001/2)	Percent	20.9	49.2
Literacy rate (2001)	Percent	68.5	64.8
Infant mortality rate (2001)	Per 1,000 live births	34.9	63.2

Note: [1]Per capita consumption of electricity.
[2]Excluding cellular lines.

Sources: *Economic Survey* (Government of India, various years); *NEDFi Databank Quarterly* (North Eastern Development Finance Corporation, various years); *India Infrastructure Database 2005* (Ghosh and De 2005a).

Industrial backwardness is almost everywhere in NER despite the region's vibrant tea (started in 1886) and oil (resumed in 1897) industries. Between August 1991 and January 2005, NER has attracted only 2 percent of India's industrial investment proposals.[13] In spite of good industrial incentives including 10 years tax holiday, transport subsidy, capital investment subsidy, the implementation rate of investment proposals in NER is abysmally low: only 4.42 percent of investment proposals amounting to Rs.13 billion so far implemented during August 1991 to January 2005, and generated 7,497 jobs only (De 2005a).[14]

NER is a land of majestic mountains and has more than its share of history, pilgrimages, temples, handicrafts and wildlife. Bounded by Bangladesh, Bhutan, PRC, and Myanmar, this region has absorbed many waves of migrations. Here, Indo-Aryan, Tibeto-Burmese, Chinese, and Mon-Khmer races have mingled with the aborigines to create colorful communities and different political systems amid the fertile Brahmaputra and Surma valleys and the resource-rich eastern Himalayas and their foothills. All the eight NER states offer varying tourist attractions. Their language, customs, traditions, history, folklore, festivals, and handicrafts differ as much as their people. Since 1995, the restricted areas permit

[13]Total investment proposals amounted to Rs.290 billion for the period August 1991 to January 2005. Industrial investment proposals consider industrial entrepreneur memorandums, letters of intent, and direct industrial licenses (Government of India 2005b).

[14]According to the Government of India (2004), industries that have recently set up industrial units in NER are Godrej Sara Lee, Emami, Jyoti Laboratory, Dharampal Satyapal, Kothari Industries, Hindustan Lever, Ozone Pharmaceutical, Ozone Ayurved Products, Guru Detergents & Chemicals, Shyam Century Ferrous, RCL Cement, Barak Vally Cement, Pancharatna Cement, S M Coke, Pepsi, Composite Jute Mill, Jericho Detergent., DSS Contact, Lafarge, etc. Some of the prominent projects under implementation in the region are H M Cement, Sai Megha Alloys, Smithkline Beecham, and LG Electronics.

requirement has been done away with for most of the states of NER. Japanese are the main foreign visitors to NER.[15]

In a nutshell, NER enjoys the following special advantages over other parts of India.

(i) A market of 400 million people is emerging locally and from neighboring countries like Bangladesh, Bhutan, PRC, Myanmar, and Nepal.

(ii) The region has the potential to develop into India's powerhouse, being a vibrant source of energy, oil, natural gas, coal, and limestone; and being endowed with India's largest perennial water system in the river Brahmaputra and its tributaries.

(iii) The Brahmaputra Valley provides fertile soil for cultivating horticultural products, plantation crops, vegetables, spices, rare herbs, and medicinal plants, where three agricultural export processing zones are in operation.

(iv) Unlimited tourism opportunities, rare flora and fauna, natural scenic beauty, unique performing arts, and varied cuisine and handicrafts.

(v) Locational advantage exists due to unique proximity to other countries in South and Southeast Asia. NER can emerge as a strategic base for foreign/domestic investors to tap the world's largest market—South Asian Association of Regional Cooperation (SAARC), Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC), and Association of Southeast Asian Nations (ASEAN). [16]

(vi) A border custom station between Myanmar and NER has opened at Moreh (Manipur) with a possibility of a second border trading point opening at Champhai.

(vii) NER's internal waterway network connects the region with Bangladesh and Myanmar, giving access to the ports of Chittagong (Bangladesh), Calcutta and Haldia (West Bengal in India), and Sittwe (Myanmar).

(viii) Industrial growth centers in NER have already been converted into tax-free zones for the next 10 years. Besides, the government also offers incentives on transport, capital investment, and interest subsidy on working capital.

Therefore, NER is unique in terms of opportunities. It also has certain peculiarities and problems, which, if tackled and leveraged in the right perspective, could yield rich dividends. While it is an industrial desert where

[15]Many Japanese come to pray at the graves of their forefathers in Manipur, who perished in World War II.

[16]India is committed to the South Asia Subregional Economic Cooperation (SASEC) program of the Asian Development Bank, which involves Bangladesh, Bhutan, India (eastern states), and Nepal. This program envisages subregional cooperation in the areas of transportation and communication, energy and power, tourism, environment, trade, investment, and private sector cooperation.

almost all consumables are imported from outside the region, it is the focal point of trade within a vast area. It is therefore essential to evolve a regional approach as opposed to individual state approach (Bhattacharyay and De 2005). Therefore, NER's locational advantage and rich natural resources provide a backdrop to its development as a base for cooperation not only with the PRC but also with neighboring countries such as Bangladesh, Bhutan, Myanmar, and Nepal. And through Myanmar, subregional cooperation can be extended to Cambodia, Lao PDR, Thailand, and Viet Nam.[17]

B. Profile of Southwest PRC

The SWC has witnessed comparatively low income growth compared to the PRC's eastern region for a long time. Therefore, a fundamental objective of the Western Development Strategy of the PRC government is to reduce the income disparities among provinces and also within provinces (Asian Development Bank 2002). Table 4 shows that with 19.5 percent of the total PRC population and 27.3 percent of the country's total area, the SWC contributes 11 percent of the country's gross domestic product (GDP). SWC's economy is primarily agrarian with a moderate presence of the industrial sector. The region has not witnessed any considerable visibility in international trade; SWC contributes only 2.2 percent to the country's total exports. Per capita trade of SWC is only US$37, compared with US$366 for the country as a whole. The region has attracted negligible FDI; the per capita FDI in SWC was only US$6 in 2001, whereas the same for the entire PRC was US$31. Perhaps, like India's NER, the main drawback of the SWC is its geographical isolation.

The SWC is rich in agricultural and mineral resources. More than 70 types of minerals can be found in SWC (Asian Development Bank 2002). Important among them are chromites (highest deposits in the PRC) and lithium (highest deposits in the world). In addition, the SWC accounts for the country's significant deposits in copper (second highest deposits in the country), boron (third highest), magnetite (third highest), barite (third highest), arsenic (fourth highest), gypsum (second highest), pottery clay (fifth highest), muscovite (fourth highest), and peat (fourth highest deposits in the PRC). Like India's NER, SWC is also rich in plants, water, and hydroelectric energy resources. The Yarlung Zangbo river[18] promises 80 million kilowatts (KW) in exploitable energy capacity. The hydroelectric capacity of the five tributaries of Yarlung Zangbo, namely Dogxung Zangbo, Nyang Xu, Lhasa, Ny'ang, and Darlung Zangbo rivers, is assessed at about 90 million KW.[19] Besides hydroelectric resources, SWC also has huge

[17]In fact, a regional cooperation grouping called Mekong–Ganga Cooperation (MGC) was established on 10 November 2000 comprising six countries, namely, Cambodia, India, Lao PDR, Myanmar, Thailand, and Viet Nam, and deals primarily with four areas of cooperation, such as, tourism, culture, human resource development, and transportation linkage in order to be the foundation for future trade and investment cooperation in the region.

[18]Chinese name of India's Brahmaputra river, when it passes through TAR.

[19]For further information, see www.tibetinfor.com.cn.

geothermal energy resources. The Yanbajain geothermal field in Damxung is currently the PRC's largest high-temperature steam geothermal field, which is expected to generate 150,000 KW of power in a year.[20]

Table 4. **Economic Profile of SWC**

Particulars	Unit	SWC	PRC
Population and Income			
Population distribution (1999)	percent	19.5	
Share in area (1999)	percent	27.3	
Share in country, GDP (2000)	percent	11.0	
GDP composition (1999)			
Primary sector	percent	24.8	16.7
Secondary sector	percent	40.7	46.5
of which: Industry	percent	33.6	40.0
Tertiary sector	percent	34.5	36.8
Per capita GDP (2000)	US$	650.0	1,250.0
Distribution of main crop production (1999)			
Cereals	percent	16.4	
Cotton	percent	2.1	
Fibers	percent	14.4	
Crop yields (1999)			
Rice	kg/ha	6,444.0	6,345.0
Wheat	kg/ha	2,533.0	3,947.0
Industrial structure			
Share of light industry in industrial production (1999)	percent	42.5	42.0
Share of mining in the industry of each region (1995)	percent	9.9	12.4
Share of chemical industry in the manufacturing industry of each region (1995)	percent	8.3	7.7
Share of textile industry in the manufacturing industry of each region (1995)	percent	3.6	11.8
Degree of integration			
Share in total exports (1999)	percent	2.2	
Share in total manufacturing exports (1997)	percent	3.1	
Share in total imports (1999)	percent	2.0	
Openness (1999)	percent of GDP	3.6	
Share in total investments (domestic + foreign) (1999)	percent	3.5	
Per capita trade (2000)	US$	37	366
Foreign direct investment (2000)			
Total FDI	US$ billion	1.4	40.7
Per capita FDI	US$	6.0	31.0
FDI/GDP	Percennt	0.5	2.6

Source: ADB (2002) based on *China Statistical Yearbooks* 2001 and 2002.

In view of the PRC's Western Development Strategy, Yunnan and TAR have been trying to integrate with neighboring countries in South and Southeast

[20]Sourced from www.tibetinfor.com.cn/tibetzt-en/shuju/zirzy.htm.

Asia.[21] Apparently, vast distances have isolated TAR and Yunnan from major markets for a long period of time. Because of Yunnan's common border with Lao PDR, Myanmar, and Viet Nam, the Yunnan province is also promoted as the gateway to South and Southeast Asia. Yunnan is also being treated as a passageway for cultural exchange (being the ancient Southern Silk road).

With a total population of 42.9 million, Yunnan's total GDP is about 208 billion yuan, and its per capita income at current prices is US$650. Aggressive economic reform has translated into significant economic growth in the last decade, and as a result, this province has been growing at 9 percent since 1981, far exceeding the target growth rate of 7 percent (Table 5). TAR, even though landlocked, has been growing at 9 percent per annum since 1991. Therefore, both provinces have been successful in improving their per capita income in the last decade. Higher per capita income has been translated into better social conditions during 1990–2000 (Table 5).

As can be seen from Table 5, one major source of earnings of SWC is tourism. The entire western region of the PRC has many tourism magnets. In the *World Heritage* list published by the United Nations Educational, Scientific and Cultural Organization (UNESCO 2000), the PRC's western region had four attractions in the cultural category and three attractions in the natural category; Yunnan and TAR each have one in this list.[22] With about 26 percent of their GDP coming from the tourism sector, TAR has a considerably high tourism income/GDP ratio, while Yunnan posted 7.6 percent in 2002. About 29 million tourists visited TAR and Yunnan during 2002–2003.

Yunnan's plan is to develop as a model of a dynamic and open "green economy" with a special focus on sustainable natural resource-based and services industries, including tourism. The flourishing tourism industry in Yunnan has propelled rapid development in the tertiary sectors such as catering, transportation, and trade. Since the implementation of the national policy of reform and opening, the various nationalities in Yunnan have strived to develop a flourishing economy by creating pillar industries, and have participated in economic cooperation with local and foreign investors. These efforts greatly strengthened the comprehensive economic power of Yunnan and improved the infrastructure for developing foreign trade. Within a 200-km area around Kunming, the main lines of communication have been modernized, and the preliminary construction of a road network leading to borders and other provinces has been completed. The completion of the Nanning–Kunming and Guangtong–Dali railways, and the reopening of the Kunming–Viet Nam Railway[23] have increased the length of rail lines to more than 2,000 km, forming

[21]In this regard, through Greater Mekong Subregion (GMS) cooperation, the PRC (Yunnan) has successfully established its links with Southeast Asia.

[22]Potala Palace and the Jokhang Temple Monastery in Lhasa in TAR and Old Town of Lijiang in Yunnan are listed as world heritage sites.

[23]Hanoi–Kunming railway line is one of the oldest railway systems of the world, constructed during 1901 to 1910.

a railway network linking neighboring and coastal provinces. The civil aviation sector of Yunnan has also made remarkable progress by building and extending nine international airports. The telecommunication facilities in Yunnan were also improved rapidly by means of satellites, optical cables, microwaves, program control, radio wave beepers, mobile phones, and facsimile. The completion of the Manwan hydroelectric power station boosted the energy supply capacity of Yunnan to more than 6.88 million KW.

Table 5. **Economic Profile of Yunnan and TAR**

Particulars	**Unit**	**Yunnan**	**TAR**	**SWC[1]**	**PRC**
Population (2000)	million	42.9	2.6	45.5	1265.8
Population share (2000)	percent	3.4	0.2	3.6	
Area (2000)	1,000 sq km	394	1,185	1,579	9,598
Area share (2000)	percent	4.2	12.7	16.9	
Population density (2000)	pop/sq km	109.0	2.2	29.2	136.4
Per capita GDP (1980)	RMB/capita	367.0	259.0	313.0	
Per capita GDP (1999)	RMB/capita	4452.0	4262.0	4357.0	
GDP growth rate (1980–1990)	percent	11.8	6.4	9.1	
GDP growth rate (1990–2000)	percent	9.3	9.2	9.2	
Literacy (1999)	percent	24.3	66.2	45.3	
Density of railways (2000)	km/sq km x 100	0.5	0.0	0.2	0.6
Density of roadways (2000)	km/sq km x 100	0.5	0.1	0.3	1.6
Total railway networks (1999)	km	3804	0.0	3804	
Total highways	km	102,405	2,2475	124,880	1,44434
Energy production (1999)	TWh	29.8	0.6	30.4	1,239.3
Coal	mt	26.6	0.6	27.2	
Oil	mt	0.0	0.0	0.0	
Natural gas	gigaliter	0.1	0.0	0.1	
Hydropower generation (1999)	TWh/year	6.9	0.2	7.1	196.6
Hydropower reserves (1999)	gigawatts	71.2	56.6	127.8	378.5
High-tech zone (1999)					
Exports	US$ million	95.4		95.4	
Export per person	US$ / person	5,030		5,030	
Number of tourists (2002)	million	28.7	0.4	29.1	
Income from tourism (2002)	percent of GDP	7.6	18.4	26.0	
International trade (2000)					
Share in country's total trade	percent	0.4	0.0	0.4	
Share in country's total export	percent	0.5	0.1	0.5	
Share in country's total import	percent	0.28	0.0	0.3	
Per capita trade (2000)	US$	42.0	50.0	46.0	366
FDI (2000)	US$ million	128.0	0.0	128	40715
Per capita FDI (2000)	US$	3	0.0	3	31
FDI / GDP (2000)	percent	0.2	0.0	0.2	2.6

FDI means foreign direct investment.
Note: [1]Considers only TAR and Yunnan.
Source: ADB (2002) based on *China Statistical Yearbooks* 2001 and 2002.

While a typical factor endowment crisis (the lack of capital and skilled labor) restrains TAR from having high value-added industrial activities, Yunnan has several growing industries, such as tobacco, metallurgy, chemicals, machinery, electronics, food, mining, rubber, forestry, pharmaceuticals,

biological engineering, hydroelectric power, and floriculture. With its abundant natural resources, strong industrial foundation, and good investment climate, Yunnan has been drawing foreign investments from Germany; Hong Kong, China; Japan; Republic of Korea; Singapore; Taipei, China; Thailand; United Kingdom; and United States. According to the Asian Development Bank (2002), the entire western region of the PRC enjoys significant competitive advantage in the primary sector. Table 6 lists industry products on which Yunnan and TAR have competitive advantage. Except for tobacco, Yunnan and TAR do not have advantages in high value-added industries.

Table 6. **Competitive Advantages in Industrial Products of Yunnan and TAR in 2000**

Category	Yunnan	TAR
Agro-based products	Cigarettes, sugar	
Building materials	Timber	Timber
Machinery products	Engineering	
Chemical products	Sulfuric acid, fertilizer	

Source: ADB (2002) based on *China Statistical Yearbook* 2000.

In view of the above analysis, it may be concluded that NER and SWC possess some similarities in existing economic dimensions. Notwithstanding their vast natural resources, inadequate physical infrastructure facilities coupled with geographical isolation have slowed down the pace of development in this region. Why then do India's NER and the PRC's SWC deserve more developmental attention from their respective governments? The western PRC region contains 29 percent of the country's population but contributes only 16 percent of the country's GDP. Due to disadvantages in factor endowments, the western PRC, particularly southwest PRC, could not achieve economic growth rates at par with the country's eastern region. Realizing this, the government has shown keen interest in the development of country's western region, which is all the more less developed, compared to its eastern counterpart. [24]

In sharp contrast, India's NER also has similar features. The region shares 12 percent of India's population but accounts for only 10 percent of the country's GDP. Therefore, potential benefits for enhanced cooperation between NER and SWC, and also with neighboring countries would be very high when the region

[24]In the beginning of 2000, the PRC government adopted a long-term strategy for the development of the western region of the country, which it defined as comprising five autonomous regions, six provinces, and one municipality with the status of a province. In 1999, the western region contained 29 percent of country's population but accounted for only 16 percent of its gross domestic product. Due to disadvantages in factor endowments, the western region of the PRC particularly southwest PRC cannot achieve economic growth rates at par with the country's eastern region. Although there are various natural obstacles limiting western provinces to march fast, the government has taken a policy to revive its southwest economy by strengthening its competitiveness through closer regional integration with neighboring countries (Asian Development Bank 2002).

(SWC+NEC) with its vast natural resources is linked with growing markets. Quite naturally, this development could facilitate the exploitation of substantial complementarities and important synergies that exist between these economies and would help in expediting the process of development.

III. COMPLEMENTARITIES, STRENGTHS, AND PERSPECTIVES

Economic complementarity in a region is the result of various factors, which are both nature-based and evolutionary in character. Countries at different stages of development obviously are better able to exploit complementarities. The resultant industrial and economic restructuring arising out of the complementarity has generally been explained in terms of the product cycle theory and the flying geese model approach to industrial development. However, economic complementarity may be only latent to begin with, becoming patent with successful evolution of economic cooperation (Dubey et al. 1999). Nature and types of complementarities differ across countries and regions. However, the fundamental objective does not change much: all desire to participate in the upliftment of the region by pooling each other's resources.

NER's economic structure is highly complementary to that of the SWC region. Table 7 captures some of such prominent complementarities between NER and SWC. For instance, the PRC's strong capacity in information technology (IT) hardware is complemented by India's software prowess. India is helping the PRC (and also many ASEAN countries) in training IT manpower, and several Indian companies are becoming very active in the PRC. Similarly, natural resources of NER can be exploited to tap the vast PRC and neighboring markets. While there is substantial underutilized capacity in the PRC's construction industry, NER has a huge demand for investments in infrastructure sector. Presence of a vibrant entrepreneurial class is also the key to facilitating trade, investment, and technology transfer. There is clear absence of a vibrant private sector and limited entrepreneurial base in SWC. The human resource development effort in SWC needs to give due emphasis on developing entrepreneurial capabilities, where India can be great help to SWC.[25] Despite historical linkages today, there is very limited people-to-people contact between

[25]India has taken initiatives for setting up institutions for providing training to prospective entrepreneurs and promotion of entrepreneurship as a factor of development. India's Entrepreneurship Development Institute (EDI) has trained Entrepreneur Trainer-Motivators (ETMs) from several developing countries. These ETMs in turn organize entrepreneurship development programs in their home countries under the supervision of EDI. In addition, EDI identifies viable small-scale projects and prepares project profiles for different developing countries. Thus, the scope of regional cooperation needs to be expanded to cover entrepreneurship development to make developing countries attractive for those firms intending to set up joint ventures. EDI has already started functioning in the Indo-PRC region, particularly at Lao PDR since 2004 and expected to start operation in Cambodia, Myanmar, and Viet Nam by 2005 (RIS 2005).

SWC and NER. This in turn offers very limited information about each other and also contributes toward limited trade and investment. Even though there are some differences between NER and SWC because of different cultural backgrounds and history, these differences can ignite great possibilities for the two regions to complement their economic efforts. For example, their unique natural resources and culture will attract tourists, and the mineral resources from diverse geological structures will enable the two regions to complement their demands. The different techniques in the fields of agriculture and industry will provide a large scope for technological exchange and transfer.

Table 7. **Complementarities between NER and SWC**

NER's Strengths	**SWC's Strengths**
Vast reserves of natural resources	Vast market for processed resources
Considerable presence of railways, waterways, and roadways	Good coverage of roadways and airways network
Bordering Bangladesh, Bhutan, India, Myanmar and Nepal	Bordering mainland PRC and some ASEAN members
Developed IT and software services	Developed IT hardware and electronics
Huge potential demand in construction activities	Underutilized capacity in construction activities
Presence of private capital	New opportunities for private enterprises

Trade flows between regions are determined by the spatial distribution of economic activity and their combined strengths. NER and SWC are strategically well located, serving a hinterland that accounts for about one third of the world population. Resource-based complementarities between SWC and NER are quite substantial if we look the region's combined strengths: 7 percent of the population reside in 15 percent of the territory, and contribute 18 percent of GDP (see Table 8). The pattern of development and endowments suggests that states (provinces) in this region are moving with a level of economic activity where income disparity among members is noted to be marginal. Therefore, this is a situation where closer economic cooperation between the PRC and India will help convert this region's vast resources into wealth, leading to improvements of quality of life of the local people.[26] However, to convert the resource complementarities into wealth, we need to prepare a long-term development perspective with special focus on infrastructure development, which is the main constraint for faster development of the region.

[26]However, potential environment impacts that may be caused by extraction of natural mineral resources in these regions should be taken into consideration during the formulation of development projects in this region.

Table 8. **Combined Strengths of NER and SWC**

Particulars	**NER + SWC[1]**	**Share in India and the PRC[2]**
Population (2001)	163.67 million	7%
Area (2001)	1,846,196 sq km	15%
Population density (2001)	88.65 per sq km	
Average per capita GDP (2001)	US$475	
Average share in GDP (2001)		18%
Natural gas reserves (2001)	200 bcm	…
Oil reserves (2001)	1.50 billion tons	…
Coal reserves (2001)	900 million tons	…
Hydropower reserves (2001)	300 GW	65%
Tourist arrivals (2001)	30 million	…
Competitive advantages	Agro and horticultural products, plantation crops, mineral products, chemical products, building materials, tourism	
Combined advantages	Strategic location; considerable penetration of railways, roadways, and waterways; untapped and underutilized natural energy; vast reserve of natural resources; strong human resources; a 400 million strong market; versatile tourism industry; linkage with India–Myanmar–Thailand Trilateral Highway, Asian Highway, and Trans-Asian Railway networks	

… means data not available.

Note: [1]Data for the PRC is for the year 2000 while that for India is 2001. NER considers states that are mentioned in Table 1, whereas SWC considers provinces like Yunnan and TAR.
[2]Rounded off.

Source: Author's own calculation based on various secondary sources.

Geographical contiguity can facilitate the development of vast natural endowments (natural gas, coal, and hydropower reserves) provided a conducive environment is created through close bilateral cooperation. Roads, railways, and inland waterways are the dominant modes for trade between the PRC and India. To minimize environmental pollution, it is advisable to lay emphasis on rail and inland water transport. Currently, transborder rail links between the PRC and India do not exist. With such great rivers as the Ganga, Brahmaputra, and Mekong, inland water transportation has immense potentials for trade ties between the PRC and India.

Trade is the most expeditious instrument for promoting cooperation among countries in a region or subregion. The interdependence of trade and investment is apparent from simple facts: that without adequate transportation facilities, maximization of mutually beneficial trade opportunities cannot take place; that development of multimodal transportation requires large-scale investments; and that economies of scale may dictate that such investments be cross-border investments. Such investments, moreover, can benefit the poorest people in the most remote locations of NER and SWC.

In the development of hydropower, profitable commercial investment and extensive markets will depend on cooperation between the PRC and India and also with neighboring countries. Only about 3,500 MW of the hydropower potential of the Ganga and Brahmaputra basin have been or are being tapped

presently, while the estimated total stands at 90,000 MW approximately. The Ganga basin accounts for 40 percent of this hydropower, and the Brahmaputra basin for 57 percent (Das 2005b). With 37 percent of this potential, NER remains the largest reservoir of hydropower in the eastern South Asia subregion, while Bhutan commands 23 percent, Nepal 28 percent, and North India's Ganga catchment area 12 percent. Much of India's unutilized hydropower potential is located in the Brahmaputra basin. In India's Arunachal Pradesh, which has 39 percent of India's power potential, only 2 percent of this reserve is currently being energized. NER's hydropower can be marketed in SWC and among neighboring border countries. Massive investments are required for the development of the hydropower resources of the Ganga–Brahmaputra basin, and therefore can be productive with enhanced cooperation between the PRC and India. This can thus result in an integration of the power transmission and distribution networks of Bangladesh, Bhutan, PRC, India, Myanmar, and Nepal.

Coordinated planning of hydropower investments and power transmission networks entails decision making on an exceedingly complex matter. Smaller countries usually have concerns about being marginalized by big neighbors. But complexity decreases with strong administrative political systems to facilitate trade and investment. Some of the requisite official decisions have to be carried out multilaterally and others bilaterally. Moreover, administrative matters and political will have to be directed toward enhancing partnership between the public and private sectors.

Attracting investments for mega projects in highway or hydropower development in India's NER may require the combined efforts of public and private agencies in the countries concerned. While ADB has launched initiatives for the development of South and Southeast Asia under South Asia Subregional Economic Cooperation (SASEC) and the Greater Mekong Region (GMS)[27] programs, respectively, much more needs to be done by the PRC and India to draw investments from Europe, Japan, and North America for promotion of trade and investment in India's NER and the PRC's SWC. Many other areas in the world are also competing for investments. Therefore, public–private agencies in the PRC and India must cooperate to collect/disseminate information and adopt a strategy to secure foreign investments. Attempts should be made to strengthen networking among chambers of commerce and academic organizations in NER and SWC, and among respective government agencies, in such a way that promotional activities (e.g., in tourism) can avoid wasteful competition among various subregional cooperation blocs in the region and multiply mutual benefits. Such networking can ensure that investment by India in the PRC and vice versa will be so designed and located to maximize impact upon the entire area and enhance growth by trade and employment generation.

A major barrier to expanding India's trade with bordering countries is the lack of adequate transport network. Cross-border infrastructure development can create a sound environment in geographically proximate or integrated areas for

[27]For further details, see http://www.adb.org/Documents/CSPs/GMS/2004/RCSP.asp.

promoting prosperity of trade and investment. In the PRC and India, a majority of the poor lives in the remote and/or isolated areas, especially in the cross-border regions. These areas urgently need to set up linkages with the outside world, through highway, railway, and telecommunications to take advantage of their rich resources. Cross-border infrastructure programs could make use of complementarities and economies of scale in these geographically contiguous areas. The establishment of physical linkage through transportation and telecommunications would reduce the cost for factor mobility and increase trade and investment.

The development of adequate and good quality transport infrastructure such as road, air, shipping, and rail networks in these regions will pave the way toward promoting international trade between India and its immediate bordering countries and regions. Improving transport infrastructure can generate economic activities in NER, i.e., increased international trade, and will, in the process, spur development and improve the quality of life. Better transport facilities are vital in reducing intercountry and intracountry inequality. To achieve substantial progress through international trade and economic cooperation, priority should be given to the development of infrastructure facilities. Added to this, complementary policy reforms, accompanied by improved procedural and operational efficiency in the transport sector, are essential for supporting trade liberalization. In Asia, Iran, Jordan, and Kazakhstan are examples of countries that have actually invested in new highway and railway construction in order to maximize earnings from transit traffic. ADB's highly successful Greater Mekong Subregional cooperation project seeks to promote the three Cs: connectivity, cooperation, and competitiveness. One of its two East–West road corridors will soon connect the Andaman Sea (the Myanmar coast) through Thailand and Laos with the South China Sea (at Danang in Viet Nam). Therefore, the time is ripe for the PRC and India to share each other's strengths in social and economic infrastructure so that the economies of both countries, particularly regions that are relatively poor, will gain appreciably.

Border trade potential between the PRC and India can be realized by creating proper trade and communication facilities at the border points.[28] While cross-border investment does not exist at present, strengthening existing communication facilities between NER and SWC will generate cross-border investments. Closer cooperation between the PRC and India may help in developing this vast and unexploited potential of cross-border cooperation for mutual benefit. Such cooperation will contribute in fostering public–private partnership in enriching the economic life of the regions concerned. This will, moreover, enable both governments to expand the necessary infrastructure facilities and to adopt favorable policies, which will boost the competitiveness of the PRC and India in the global market. There are some positive indications of

[28]During the visit of India's Prime Minister to the PRC in June 2003, both countries signed an agreement that commits both sides to trade through Nathu La in Northeast Sikkim (India) and Yardong in TAR (the PRC). This border crossing point was closed just after the India–China War in 1962.

joint ventures between Indian and PRC oil companies in bidding energy sector projects in third countries. For instance, ONGC Videsh Ltd. (an Indian Fortune 500 public sector company) has partnered with PRC firms in Ivory Coast, Russia, and Sudan.

The big opportunities for NER also lie in developing trade routes from NER to Myanmar and Yunnan province in the PRC. The Nathu La border crossing with TAR is unlikely ever to constitute a major trade route between the two countries. The distances to other countries are too great, and the regular winter closures and frequent temporary closures in other times rule out the Nathu La border as a major cross-border trade route between the PRC and India. This border crossing would be very suitable for local trade and tourism. A recent development is a road linking PRC, India, and Myanmar has been opened to traffic. The road section from Pingyuan to Nabang in Injiang county of Yunnan province, which lies on the border with Myanmar, was opened to traffic in April 2005. After the opening, travel distance from Kunming (capital of Yunnan province), via Myitkyina in Myanmar, to Ledo in India has been shortened to about 1,200 km. Previously, freight transport between Yunnan and India had to follow a roundabout route from Kunming to Zhanjiang port in Guangdong province, then loaded onto ships bound for India via Malacca Straits—a total of 6,000 km. This road will also facilitate freight transport from Yunnan to Europe and Africa via seaports in India and Myanmar. Strengthening cooperation among PRC, India, and Myanmar would facilitate direct (and nonstop) railway/road/air linkage between the PRC and India. Here, PRC, India, and Myanmar can learn from the experiences of the NAFTA. In view of the regional geopolitical setting, cross-border trade between the PRC and India will always be beneficial to the local population. However, its contribution largely depends on two factors: the export potential and the existence of suitable conditions for the growth of cities. Without trade, a border area becomes a closed economy.

India could cooperate with PRC for human resource development in a wide range of areas which, *inter alia*, calls for mutual recognition of degrees, courses, and credits between the universities and other institutions of higher learning within the region, exchange of faculty, and facilitation of greater mobility of students between countries. This in turn could further enhance people-to-people contacts, and thereby promote cooperation in other related areas such as science and technology, trade and investment, and tourism in the region. In the era of globalization, English has become a language with immense importance. The SWC in general is weak in the English language and is keen on developing this capability. Given India's capability in this field, this is could be an area of special focus. The PRC and India also need to facilitate greater interaction between the media of the two countries to reduce the information gap. There is very little reporting on SWC in the Indian media and vice versa. To bridge this gap, some exchange fellowships for media persons and journalists could be set up to allow SWC journalists to spend some time in India and vice versa. There are also ample opportunities of cooperation in the entertainment sector, with SWC having

excellent locales for shooting films with natural settings. India, being the world's largest film making country, can use these locations. Given the fact that Indian films are already popular in the PRC, such initiatives will enhance people-to-people contact. This by itself might facilitate greater integration of media groups within the region.

Finally, public and private sector agencies in the PRC and India must pool their resources to launch a comprehensive and systematic entrepreneurship development program, particularly in the PRC's southwestern region. New entrepreneurs, even though working on a small scale, often come up with significant innovations (as in the United States). If such entrepreneurs can provide original products in the sectors of information technology, biotechnology, or solar/wind energy, these will substantially contribute to poverty reduction, growth, investment, and trade in the PRC and India. Cooperative development in this region can also gather force to counteract some of the adverse effects of globalization by reducing the economic disparity between high- and low-income countries, or, what is far more practicable, by using the PRC–India solidarity to cope with this rich–poor disparity.

IV. CONCLUDING REMARKS

Economies, societies, regions, and nations around the world are fast becoming integrated among themselves and into the world economy, especially during the last decade, in an unprecedented way. Not only commodities but also factors of production and services are becoming more and more mobile internationally. In one sense, if an economy or a region within an economy fails to integrate itself into the changing world or fails to maintain a competitive and decent economic environment, its most valuable human resources will eventually move out of the region, thereby making it a loser in today's world. Globalization means increasing access to world resources. It also means "competition" in a world economy and survival of the fittest, whether an individual, firm, region, or nation. Integration will bring reduced transaction costs, greater productive infrastructure services, lower trade barriers, faster communication of ideas, goods and services, and rising capital flows. Integration requires a strong political will not only at the national level but also at the regional level. Hence, "integration" is the other name of "globalization."

The PRC and India are great nations that in the past created splendid civilizations in world history. Currently, both countries are faced with high pressures of population growth, poverty, and income disparity. Strong economies can be developed by learning from each other's experiences and complementarities. Some of the areas where northeastern India and southwestern PRC can cooperate include tourism, education, construction, infrastructure, plantation sector, and agro and food processing industries. Southwest PRC can contribute to northeast India's development in several areas, which include infrastructure, particularly roads and airways, logistics, industrial parks, and tourism. Northeast India can also contribute to southwest PRC's development in

education, IT and software services, telecommunication, housing, and real estate. Enhanced cooperation between the PRC and India will transform these complementarities for the benefit of the regions. Cooperation in trade, tourism, and industries between the PRC and India can enhance certain initiatives on PRC–India relations that have already been launched.

Strengthening cooperation among PRC, India, and Myanmar would facilitate direct (and nonstop) railway/road/air linkage between the PRC and India, and also among neighboring countries. Here, the PRC and India can learn from the experiences of NAFTA. In view of the regional geopolitical setting, cross-border trade between the PRC and India will always be beneficial to the local population. However, its contribution largely depends on two factors: the export potential and the existence of suitable conditions for the growth of cities.

Since both the PRC and India are focused on achieving the status of developed countries through an appropriate set of policies and actions, narrow political considerations need not inhibit the spirit of growing cooperation. Given India's gradual emergence as a knowledge-based economy, and of the PRC as a manufacturing-based economy, coupled with the existence of diversities as well as complementarities, NER and SWC will certainly benefit from closer economic cooperation. However, looking at the overall geopolitical settings, both countries are likely to take cautious steps in facilitating cross-border interaction. To move in this direction, apart from encouraging regular exchanges between cultural, business, and academic institutions between the two countries, the governments may together conduct a detailed policy planning study to plan a strategy and a road map of gradually expanding cooperation.

Benefits of closer economic cooperation have been reflected in rising bilateral trade between the two countries; bilateral trade having crossed over US$12 billion in 2004. In view of their complementarities based on comparative advantages, the potential for further enhancement of trade is significant. Studies suggest that the potential for trade expansion between India and the PRC is very large (Government of India 2005a). Each side is now focused to take advantage of rising opportunities for mutual gains instead of competitive challenges from each other.

Bilateral regional cooperation and integration can help to maximize the benefits of globalization, while minimizing its risks. But on a broader scale, the impetus for more regional integration in Asia has resulted from relatively slow progress in multilateral trade talks at the global level, and the benefits of free trade agreements (FTAs) in Europe and the Americas. There has been a shift in regional trade strategy, and bilateral trade accords are on the ascendant, marking a shift from a regional emphasis on multilateralism. With the aggressive pursuit of these bilateral trade deals among Asian countries and between Asian with non-Asian countries, the opportunity costs of not accelerating bilateral regional integration are high for Asian countries, particularly for the fastest-growing, large, and neighboring countries of the PRC and India.

The environment for greater integration between the PRC and India is better than ever even as the opportunity cost of nonintegration continues to

increase. This is the right time for the PRC and India to intensify cooperation between its SWC and NER regions through initiatives for closer economic exchanges that promote trade and investment. Being WTO members, the PRC and India can benefit from a globalizing market economy. This cooperation will improve the quality of life of the common people in both countries.

Finally, an advocacy of enhanced cooperation between the PRC and India does not imply any restriction upon existing subregional cooperation in the larger surrounding area, i.e., among countries belonging to SAARC, SASEC, and BIMST-EC. Cooperation between the PRC and India (in matters of trade and/or investment) is sustainable regardless of operation of other multicountry cooperation initiatives. Geographical contiguity buttresses the PRC–India cooperation. Other subregional cooperation initiatives should not be perceived as constraints in developing the potential cooperation between the PRC and India. Moreover, the development of cooperation between the PRC and India can enhance cooperation of these two countries with various countries in Southeast and East Asia.

REFERENCES

Agarwala, R. 2002. *The Rise of the PRC: Threat or Opportunity?* Research and Information Systems for Developing Countries (RIS), New Delhi, India.

Asian Development Bank (ADB). 2002. *The 2020 Project: Policy Support in the People's Republic of China.* Manila, Philippines.

Bhattacharya, B., and P. De. 2005. Promotion of Trade and Investments between China and India: The Case of Southwest China and East and Northeast India. CESifo Working Paper No. 1508, Centre for Economic Studies and Ifo Institute for Economic Research, Munich, Germany.

Das, G. 2005a. *Structural Change and Strategy of Development: Resource-Industry Linkages in North East India.* New Delhi: Akansha.

———. 2005b. "Sino-Indian Border Trade for Frontier Development: The Case of India's Northeast and the PRC's Southeast" In J. K. Ray and P. De, eds., *India and China in an Era of Globalisation: Essays on Economic Cooperation.* New Delhi.

De, P. 2005a. *Widening India-Bangladesh Cooperation Agenda in Context of South Asian Regional Cooperation: Issues and Tasks Ahead.* Conference Proceedings, ICSSR-NERC's National Conference on Indo-Bangladesh Border Trade: Status and Prospects, 12-13 July, Shillong, Meghalaya, India.

———. 2005b. *Diversification of Indian Exports to the PRC: An Assessment.* Federation of Indian Chambers of Commerce and Industry (FICCI), New Delhi, India

Dubey, M., L. R. Baral, and R. Sobhan. 1999. *South Asian Growth Quadrangle: Framework for Multifaceted Cooperation.* New Delhi: Macmillan.

Ghosh, B., and P. De. 2005a. *India Infrastructure Database 2005.* New Delhi Bookwell.

———. 2005b. "Investigating the Linkage between Infrastructure and Regional Development in India: Era of Planning to Globalization." *Journal of Asian Economies* 30(1):1023-50.

Government of Assam. 2003. *Assam—A Profile: Vision 2020 Report.* Guwahati, India.

Government of India. 1997. "High Level Commission Report to the Prime Minister: Transforming the Northeast: Tackling Backlogs in Basic Minimum Services and Infrastructural Needs." New Delhi, India.

———. 2004. *North East—A Profile.* Proceedings of the 2nd North-East Business Summit, 20-21 January 2004, Ministry of Development of North East Region, New Delhi, India.

———. 2005a. *Report of the India-the PRC Joint Study Group on Comprehensive Trade and Economic Cooperation.* Ministry of External Affairs, New Delhi, India Available: www.meaindia.nic.in.

———. 2005b. *Annual Report 2004-05*, Ministry of Commerce and Industry, New Delhi, India

Lama, M. P. 2005. "India-China Border Trade through Nathu La in Sikkim: Potentials and Challenges". In J. K. Ray and P. De, eds. *India and China in an Era of Globalisation: Essays on Economic Cooperation.* New Delhi, India.

North Eastern Development Finance Corporation Ltd. (NEDFC). 2003. *NEDFi Databank Quarterly*. Guwahati, India.

Ray, J. K., and P. De. 2005. *India and China in an Era of Globalisation: Essays on Economic Cooperation.* New Delhi: Bookwell.

Research and Information System for Developing Countries (RIS). 2005. *South-South Economic Cooperation: Exploring Mekong-Ganga Relationship: India Country Report.* New Delhi, India.

Singh, S. 2005. China–India Economic Engagement: Building Mutual Confidence. CSH Occasional Paper 10, Centre de Sciences Humanies, New Delhi, India.

UNESCO. 2000. *World Heritage List.* United Nations Educational, Scientific and Cultural Organization. Paris, France.

Venables, A. J. 2003. "Winners and Losers from Regional Integration Agreements." *The Economic Journal* 113(October):747-61.

World Bank. 2005. *World Development Indicators 2005.* Washington DC.