

A Study On The Trade Relation Between India and China

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Abstract

The aim of this paper is to study the growth of trade relation China and India in terms of their Integration in the global economy. They are the fastest growing economies in Asia as well as in the world scenario. Both economies are classified by international agencies as emerging markets with potential for rapid economic growth. This paper is an attempt to examine and compare bilateral trade between the two economies and to draw implications for trade and economies cooperation between India and china in future. Especially, this paper investigates the major trends and changes in the India's balance of trade with China; in total import or export to china. The results prove the positive growth effects, for the two countries, of opening up and integrating in the world economy. Note that the robust growth of these two "giants" has contained the initial impact of the recent global crisis and is now sustaining the recovery of the entire world economy. Other policy relevant implications are discussed in the concluding section. In this article, we examine the impact of economic factors on the strategic relationship between India and China.

Keywords: India, China, Economy, Trade, Growth

Methodology

The data and sources for this research paper have been taken from newspaper editorials, journal, books and television.

Objective

- To find out the trade relation between India and China.
- To know the reasons for trade deficit of India.
- To find out the existing relation with china.

Introduction

India and China today represents Asia's two largest and most dynamic economies which are emerging as new trend setters in international relations. On 1 April, 1950, India became the first non-socialist bloc country to establish diplomatic relations with the People's Republic of China. Prime Minister Nehru visited China in October 1954. While, the India-China border conflict in 1962 was a serious setback to ties, Prime Minister Rajiv Gandhi's landmark visit in 1988 began a phase of improvement in bilateral relations. Cumulative outcomes of nine key visits in recent times have been transformational for our ties. These were that of Prime Minister Vajpayee [2003], of Premier Wen Jiabao [2005 & 2010], of President Hu Jintao [2006], of Prime Minister Manmohan Singh [2008 and 2013], of Premier Li Keqiang [2013], of President Xi Jinping [2014] and

of Prime Minister Narendra Modi [2015]. Trade and economic relationship has seen rapid progress in the last few years. India & China signed a Trade Agreement in 1984 which provided for Most Favored Nation Treatment and later in 1994, the two countries signed an agreement to avoid double taxation. . China is the world's largest exporting country while India's exports have been grown after 2009. In recent past years, both India and China have been pursuing FTAs with a variety of countries particularly in Asia. It is reported that no progress has been made towards the signing an FTA between India and China. As China has gained a large footprint in international trade and India's domestic industry has declared notes of caution on several incidents over a possible FTA with China. China trades as much as five times more than what India does .India China trade has a marked difference with India importing three times as much as it exports to China. China exports to India have been growing at a rate than overall Chinese exports as well as total Indian imports. China is extending its business to the Indian market at a much quicker pace than any of its other export destinations. It is important to analyse the potential effects of an FTA with China on India, a reduction of trade barriers could result in mutual benefit. China has emerged as an export driven economy with its growth rate of exports beating that of its imports. India's export growth rate is still covering behind its import growth rates. More than half of China exports come from final processing goods and assembly of goods while India's exports are primarily raw material and labour oriented with items such as mineral fuels and precious stones. China is India's largest trading partner with bilateral trade at USD 69.39 billion (USD 69399176 thousand) in 2016, but it is heavily tilted in favour of China. India exports to China recorded USD 8916073 thousand in 2016 while India imports from China recorded USD 60483103 thousand during the same period.

Overview of India-China Trade relations

The principal items of Indian exports to China are ores, slag and ash, iron and steel, plastics, organic chemicals, and cotton. In order to increase the extent of exporting Indian goods to China, however, there should be a special emphasis on investments and trade in services and knowledge-based sectors. The other potential items of trade between India and China are marine products, oil seeds, salt, inorganic chemicals, plastic, rubber, optical and medical equipment, and dairy products. Great potential also exists in areas like biotechnology, IT and ITES, health, education, tourism, and financial sector. The main items that comprise Chinese exports to India are electrical machinery and equipment, cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils. Value added items like electrical machinery dominates Chinese exports to India. This exhibits that Chinese exports to India are fairly diversified and includes resource-based products, manufactured items, and low and medium technology products. It is said that if India is to capture the markets of China and enjoy profits, then it would have to discover new merchandise and branch out its exports to China. The biggest chunk of imports from China to India involves following products: electronic & electric products, machinery, various chemicals, fertilizers, iron or steel product, plastics, mineral fuels and oils. In January of 2017 the imports from china increased by 16.7% from the preceding year to US\$134.43 billion. . China is currently our largest goods trading partner with \$578.6 billion in total (two way) goods trade during 2016. Goods exports totalled \$115.8 billion; goods imports totalled \$462.8 billion. Indian exports continued to decline while the bilateral trade marginally slowed down by 2.1% to nearly \$71 billion. The total India-China bilateral trade in 2016 amounted to \$70.8 billion, a decline of 2.1% as per the trade figures released by General Administration of Customs (GAC). China exports totalled to \$58.33 billion, registering an increase of 0.2% compared to \$58.25 billion in 2015, as GAC data accessed by PTI. Increasing trade deficit with China can be attributed primarily to the fact that Chinese exports to India rely strongly on manufactured items to meet the demand of fast expanding sectors like telecom and power.

Main Reasons for Trade deficit with China

The problem behind this huge trade deficit is India's export of raw materials as opposed to importing finished product with high technology from China. India's trade basket consists of cotton, gems and precious metals, copper and iron ore. China on the other hand, exports manufactured capital goods. Since India does not produce enough high-technology manufactured goods for exports and domestic use, it has to rely on imports from the outside world specially China. Market access is a huge problem for Indian companies. Strict government regulations in China hinder Indian companies from penetrating the Chinese market. For example, India is very strong in three key sectors – pharmaceuticals, agriculture and IT services – but Chinese regulations impose restrictions that stifle the provision of Indian goods and services. There is a serious knowledge and information deficit on China. "According to study conducted by CII Core Group on China, India does not have in-depth knowledge of the Chinese market. A concerted effort must be made to compile this knowledge and information for the benefit of Indian Industry and consequently for the government as well. Without such knowledge, no opportunities can be seized". There are lesser checks and balances because one party controls all aspects of political economy. So the implementation of policies is quick. India on the other hand has a democratic system and implementation of policies takes more time compared to China. The complications occur when an over-zealous executive which is rule-bound interacts or counteracts with a private sector which is primarily result-oriented. Instances of judicial overreach may also threaten the economic logic of a particular policy in India. There is need for a comprehensive strategy to deal with China, for both the Indian private and public sectors. Although Chinese companies are intensely competitive with each other the communist party keeps a check through continuous propping up of the public sector. The Indian government is mostly aloof or in regulatory mode and does not interfere with rules of competition through crony capitalism. India lags behind in government-industry cooperation, while compared to China, which shows better coordination between their government and industry as a whole. Chinese companies have huge investments in the cell phone business, telecom, and power sectors. Such goods have become the backbone of India's own manufacturing. One of the reasons for the popularity of Chinese goods is that they are cheap, compared to locally manufactured goods, as well as comparable imports from the United States or other Western countries. Despite the Indian prime minister's "Make in India" initiative, India is finding it difficult to increase its manufacturing capabilities in a short time span. Until India is able to create a sound manufacturing base, it should refrain from imposing any unreasonable restrictions on Chinese goods, as it would stand to suffer more than China. It must be mentioned here that the Chinese exports to India account for only two percent of its overall exports. In case of any boycott of Chinese products, it is the Indian manufacturing companies that will be hit the most.

How to check trade deficit with China?

The trade deficit with China is a matter of concern and the government is working for greater access of Indian goods and services in the Chinese market. China topped the list of 25 countries with which India has had a trade deficit in the past three years. The government has taken a number of steps to overcome the trade deficit, which includes a New Foreign Trade Policy (2015-20), Merchandise Exports From India Scheme, the Services Exports from India Scheme and Niryat Bandhu Scheme. Zinc concentrates & copper concentrates, cotton yarn and cotton linter, frozen fish/linter, methanol, castor oil & gaur gum, Indian granite block and cedrus deodara seed are the most sought after items of export from India which have generated interested among Chinese businessmen. Earlier in May 2013, India and China signed three Memorandum of Understandings (MoUs) on buffalo meat, fisheries and pharmaceuticals; and one agreement on feed and feed ingredients. The MoUs were signed during the visit of the Premier of the State Council of the People's Republic of China, Mr. Li Keqiang to

India. With the implementation of the above MoUs, export of buffalo meat, and feed and feed ingredients to China are expected to benefit. With the operationalisation of the MoU on co-operation on Pharma between China Chamber of Commerce for Import and Export of Medicines and Health Products (CCCMHPIE) and the Pharmaceuticals Export Promotion Council of India (Pharmexcil), Indian generic drugs are expected to get market access in China. Two things stand out for immediate consideration. The Chinese say that in the next few years, they will import goods worth \$10 trillion and invest about \$500 billion abroad. We need to tap into this urgently. At present, Chinese FDI into India is rather abysmal, with the total reaching a mere \$396 million for the period 2000 to 2014. During the visit of Chinese President Xi Jinping to India in September 2014, he promised a further Chinese investment of about \$20 billion. The Chinese also proposed to set up industrial parks in India and every effort should be made to speedily execute these projects. Take the example of the manufacture of the iPhone in China. Most of its parts are imported into China from South Korea and Japan, and China is the last stop in the manufacturing chain in East Asia. China only value adds a small proportion to the full product, but the important point is that it is a part of the Asian value chain. India needs to join this chain. The second point for consideration is that there is a general lack of awareness in India about tapping the highly lucrative Chinese foreign tourist market. About 150 million Chinese travel abroad annually and are estimated to spend about \$229 billion abroad. The number of Chinese tourists visiting India is abysmally low, but this may also be due to the visa regime being rather strict due to perceived security reasons. Prime Minister Narendra Modi during his last visit to China took a decisive step and introduced the concept of e-visas for facilitating travel by Chinese tourists, but much more needs to be done to attract Chinese visitors. The Buddhist circuit around Gaya and Nalanda in Bihar needs to be directly air linked to Asian cities such as Bangkok, Singapore and Shanghai to facilitate travel. It is time for India to play the Buddhist tourist card.

Present status of relation between India-China

If India and China were two people instead of being nations, they would have described their relationship status with each other as “It’s complicated”. And yes it is indeed complicated. Every one admits to the rivalry that exists between the two nations and the relationship dynamics are complex. The 1962 war not only changed the Indian foreign and security policy, it also transformed the Sino Indian relationship forever. The bilateral relationship between the two is now shadowed by the cloud of mistrust and suspicion. There are a number of challenges that this relationship faces: the primary problem between the two nations is related to the border they are sharing with one another. The area of Aksai Chin and Arunachal Pradesh remains a matter of dispute between the two. China has a very friendly relationship with Pakistan. China uses her veto power to foil any move taken by India to nail the extremists like Masood Azhar who are harboured in Pakistan. India offering refuge to His Holiness Dalai Lama has been agitating for the Chinese since long. Although China and India have a fairly healthy trade relationship, unless the differences are resolved, the relationship is always going to be the same. 2017 was an extremely difficult year for China-India relations. With military tensions close to their disputed border, increasing competition in their neighbourhood, and growing strategic mistrust, Beijing and New Delhi’s relations reached a nadir in 2017. Happily, the damage 2017 has inflicted on the relationship between the two Asian giants is not irreparable. Nevertheless, it reflects larger trends and indicates that Sino-Indian relations increasingly stand at a crossroads, with growing likelihood that they could go in the wrong direction. Hence, New Delhi and Beijing need to start rethinking their relations in 2018. India is always suspicious about China who is also near and dear all weather friend of Pakistan. China wants to counter India on various fronts of trade and commerce, IT, etc at international level. China creates hurdles and threats to

meddle in the internal matters of India. China has blocked India's entry to NSG and Mohammed. Azarh's declaration of global terrorists tag in the United Nations organisations.

Major Findings

China and India have achieved tremendous progress in multi-sector co-operation. Notwithstanding that progress, challenges still exist in the bilateral relationship, however. This includes economic constraints, border disputes and perception problems. In recent years, India-China relations have maintained a good momentum in their development, with co-operation the key factor. The two sides have sought to continue raising the level of mutual political trust and promote the in-depth development of bilateral co-operation. The current situation suggests that co-operation between the two countries has mainly focussed on economic areas of interest, although pragmatic co-operation has also been gradually promoted in the areas of politics, boundary negotiation and non-traditional security. The development of economic co-operation is the main pillar of India-China relations. The volume of India-China trade increased from US\$100 million in 1988, to US\$73.9 billion in 2011. China has become India's biggest trading partner and India is China's seventh largest trading partner. The two governments have set the goal of increasing their trade volume to US\$100 billion by 2015. With increasingly closer trade relations, mutual investment has developed quickly as well. By December 2011, China's accumulated investment in India had reached US\$57.6 million and India's investment in China had reached US\$44.2 million. Their mutual investment is still booming. In economic relations, the current status of India-China co-operation does not match the economic scales of the two countries. There is a huge opportunity for them to expand the size of their markets and deepen their economic interdependence. In 2011, the trade volume between China and India was only equal to one-sixth of that between China and the United States and one-third of that between China and South Korea. Given the large populations in each of these countries, it is obvious that neither country has fully explored the market opportunities available in the other. Moreover, India has been worried about a trade deficit with China; for instance, India had a US\$27 billion deficit with China in 2011. Such a trade imbalance could lead to nervousness in the bilateral relationship. According to the Wall Street Journal, India has been putting pressure on the Chinese Government to import more Indian products and has set high tariffs to protect Indian industries. Further, the relative backwardness of the domestic infrastructure in India is another constraint on co-operation that restricts deeper economic collaboration and personnel exchanges. India and China hold the view that there exist bright prospects for their common development, that they are not rivals or competitors but are partners for mutual benefit. They agree that there is enough space for them to grow together, achieve a higher scale of development, and plan their respective roles in the region and beyond, while remaining sensitive to each other's concerns and aspirations. Both sides believe that comprehensive economic and commercial engagement between India and China is a core component of strategic and cooperative partnership.

Suggestion to improve trade relation with China

- Both countries should seek to avail themselves of historic opportunities for development. Each side should welcome and take a positive view of the development of the other, and considers the development of either side as a positive contribution to peace, stability and prosperity of Asia and the world.
- Both sides should hold the view that there exist bright prospects for their common development, that they are not rivals or competitors but are partners for mutual benefit. They should agree that there is enough space for them to grow together, achieve a higher scale of development, and play their

respective roles in the region and beyond, while remaining sensitive to each other's concerns and aspirations.

- Strategic partnership between the two countries with a similar worldview is consistent with their roles as two major developing countries. With the growing participation and role of the two countries in all key issues in today's globalising world, their partnership is vital for international efforts to deal with global challenges and threats. As two major countries in the emerging multi-polar global order, the simultaneous development of India and China will have a positive influence on the future international system.
- In order to promote the sustainable socio-economic development of India and China, to fully realise the substantial potential for their cooperation in a wide range of areas, to upgrade India-China relations to a qualitatively new level, and to further substantiate and reinforce their Strategic and Cooperative Partnership the leaders of the two countries have to commit themselves to pursue a common policy.
- Both sides should be committed to resolve outstanding differences, including on the boundary question, through peaceful means and in a fair, reasonable, mutually acceptable and proactive manner, while ensuring that such differences are not allowed to affect the positive development of bilateral relations.

Conclusion

India and China, the two Asian giants jointly account for 2/3 of world population and 1/3 of world geography. Together they are the major force in the world and have the capacity to form a separate power bloc strong enough to thwart any challenge from other countries. The cooperation between India and China not only conformed to the fundamental interest of the people of the two countries, but are also conducive to peace, stability and development of whole world. India-China bilateral trade is quite healthy despite having huge trade deficit vis-à-vis China. China has replaced European Union (EU) and USA and become India's largest trading partner. There is still more potential in their bilateral trade. But a close look at this increasing trade between the two countries would suggest that it is hardly contributing to the change in mutual distrust even in the economic sphere. The relationship between India and China is a complex one. On the one hand the increasing trade relations, high level political exchanges and a common understanding on certain global issues contributed to greater trust and confidence. But the ongoing border dispute, anti-dumping measures of India from the cheap Chinese goods, competition for oil and gas, and the naval competition in the Indian Ocean are the major areas of concern for both.

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