

Indo-China Trade Relations

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ABSTRACT

This study takes an account of the growth and development of economic ties between China and India since the inception periods. It examines the aspects that have added to the growth of this vital feature of their relationship. Further, it also highlights the obstacles, in particular to the economic relations in terms of trade scenario between the two. In addition, it provides that the future growth in economic ties of Indo-China will depend on how the two economies can effectively deal with matters such as trade inequity, border issues, lack of adequate infrastructure, market capture, and regulatory environment. These issues, if conquered, may show mounting growth in the existing degree of economic relations between the two. Therefore, strings of assistance and rivalry, both subsist at the same time.

KEYWORDS: India, China, Trade, Growth, Economic Relations.

1. INTRODUCTION

Since 1988, the economic relations between Indo-China have undergone important changes, while territorial disputes, the Tibet issue, and threat perceptions continue to cast a shadow over normal relations between Asia's two ancient civilizations. Instead of this, both the economies are rising powers in the region relatively in terms of economic ties (Yuan, 2016). China and India both had accomplished liberation from imperialist domination over a century, as India undergo a single imperialist rule of Britain. Foreign trade liberalization is a defining moment in the development policy of both India and China, as both economies espouse inward-looking import substitution policies with stress on self-sufficiency idea. In 1978, China implemented the policy of 'opening up to the outside world'; similarly, India adopted the import liberalization policy in 1991. India had highly structured and recognized infrastructure facilities such as railways, roads, etc., and advanced communication systems than that of China; also it was ahead in literacy rate and higher education; although, the Indian agriculture had been subjugated by the British Raj policy. On the other hand, China had paid attention more to developing a particular agricultural pattern, identified as an operating crop rotation system (IMC-ERTF, 2012).

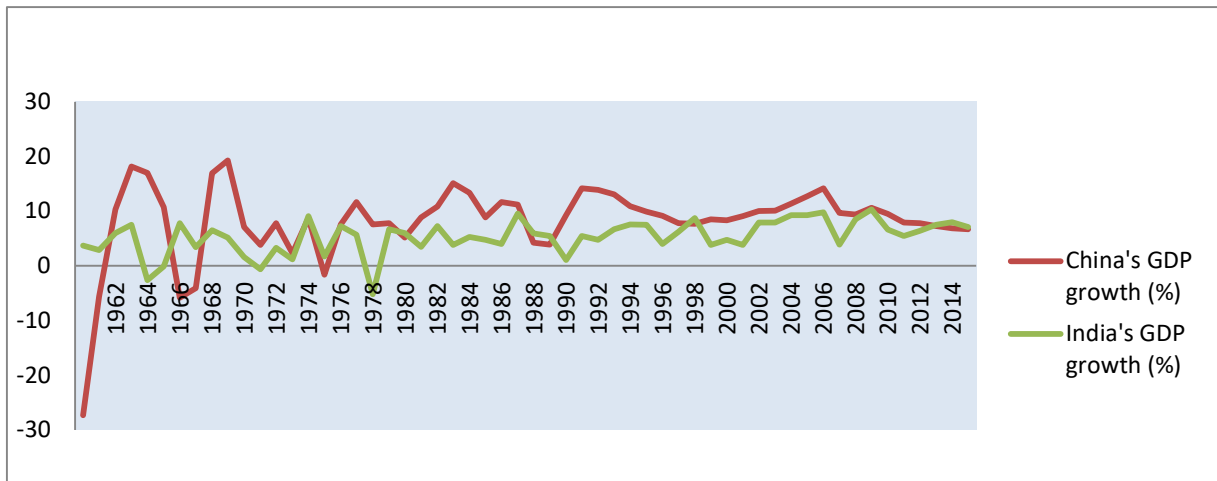
India-China economic associations comprise an imperative component of the Strategic and Cooperative Partnership between the two economies. India-China bilateral trade which was low in 2000 reached up to the level, making China India's largest trading partner in goods. Numerous institutional mechanisms have been recognized for enhancing and amplification of economic cooperation between the economies such as the India-China Joint Economic Group on Economic Relations and Trade, Science and Technology (JEG), the India-China Strategic and Economic Dialogue (SED), and the Financial Dialogue. A few years back, China affirmed its position that 'Sino-Indian ties' could be the most 'significant bilateral partnership of the century' (Pandit and Parashar, 2012). This study endeavors to analyze the progression of the trade relations between these two countries, and tried to ascertain the likely prospects of the relationship.

2. INDO-CHINA: AN ECONOMIC OVERVIEW

India and China founded their democracy around 1950; while China had comparatively at ease in terms of food surplus, which speed up its industrial growth while India experienced food grain crises for a long period, which restricted the rapid economic growth in the country (Mishra, 2006). Both the countries pass through an identical growth route between 1952 and 1978, also during that period, the economic growth rate in China and India was almost the same, i.e. around 4 percent per annum. On the other hand, the growth of India is mainly based on the service sector while Chinese growth was mainly based on the

manufacturing sector. Further, the performance of the agriculture sector was much higher in China because of the low level of population in relation to that of India (Virmani, 2005).

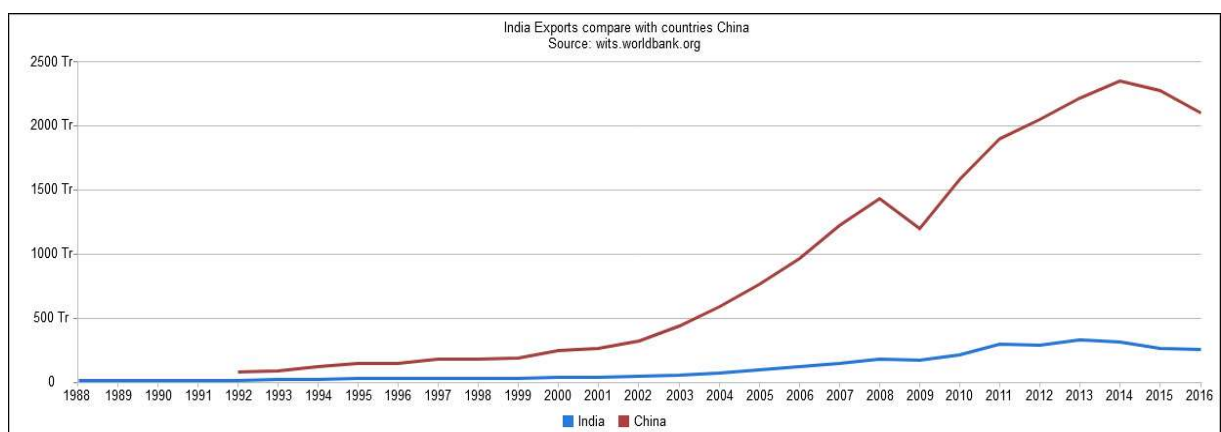
Figure 1. Comparison between India and China GDP growth (1961-2016).



Source: Prepared by the author using World Bank Database.

Figure 1 shows the comparative state of GDP growth of India and China. China's economic growth has averaged 9.4 percent per annum since 1978, while India's economic growth, subsequent to the implementation of main liberalization measures in 1991 lead to average growth of 6 percent per annum. Presently, China has come far away from India in almost all regions that are measured as the main indicators of economic growth. Furthermore, the standard of living in China has been more than twofold that of India with the gross domestic product (GDP) of China crossing twice the level of India's GDP (IMC-ERTF, 2012).

Figure 2. Comparison of India's Exports with China.

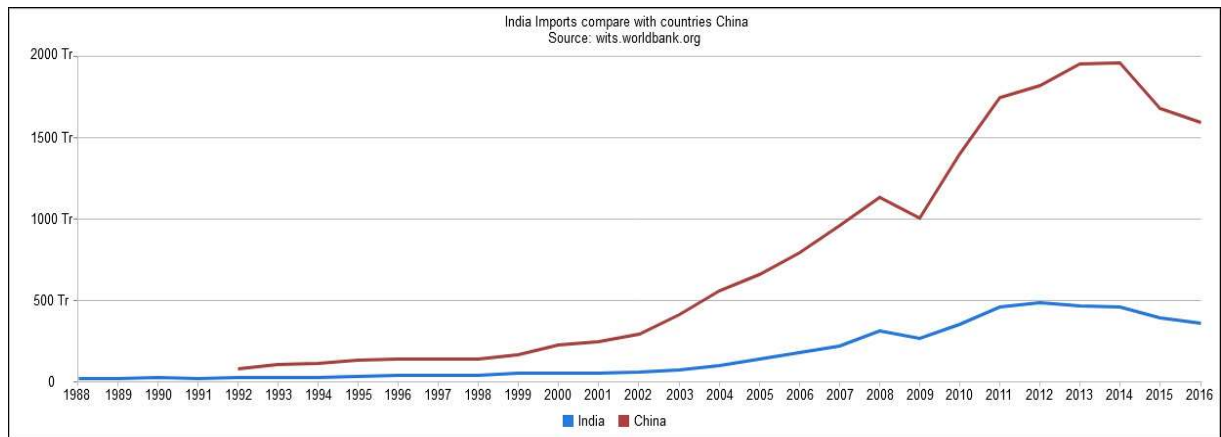


Source: World Bank Database.

Figure 2 and Figure 3 show that in the case of external trade, China is a net exporter having a constant trade surplus, on the other hand, India is a net importer showing a trade deficit for years. China has primarily been dependent on exports for motivating growth in comparison to India. China's export has a larger share in its GDP compared to the contribution of India's exports in its GDP. China's exports have seen a continuous rise in growth during the period from 1999 to 2016.

On the other hand, India's exports have been moving in between 14% to 20% during the same period while China's exports have accounted to be at 24.1% in 2009, while imports were at 19% describing a rise in exports as measured up to that of imports.

Figure 3. Comparison of India's Imports with China.



Source: World Bank Database.

China has been able to speed up the course of assimilation into the global economy at a much quicker pace than India. Based on sectors, India's top exports are inclined in support of sectors with high labor intensity and low capital intensity.

Table 1. Global Competitiveness Index 2017-18.

Rank	Country	Index Score
27	China	5
40	India	4.6

Source: World Economic Forum, 2018.

Further looking at the Global Competitiveness Index 2017-18 (Table 1), it has been found that India become stable this year considering the previous two years. The quality of institutions has increased further, especially in terms of efficiency of public spending (20th), but the private sector still considers corruption to be the most problematic factor for doing business in India.

On the other hand, China has improved its ranking by one place as a result of steady, although incremental, improvements to its overall competitiveness score. Since 2010, the growth rate of China's service sector has surpassed that of industry and further in 2013 the share of the service sector in China's national economy first outshined that of secondary industry, promoting the transformation of the economic structure from investment and export-driven to consumption-driven and of industrial structure from industry-dominated to service-sector-dominated (World Economic Forum, 2018).

3. INDIA-CHINA TRADE RELATIONS

India and China's trade relationship is relatively stronger in terms of imports and exports from or to the other countries. Sometimes back, the Chinese premier also reiterated that India and China would take their trade to new heights of whopping growth in Indo-China trade. China outlined a five-point agenda in this regard, consisting of reducing trade barriers and enhancing multilateral cooperation to boost bilateral trade. Both the countries have also agreed to work together in energy security and at the multilateral level at the WTO to support an 'open, fair, equitable and transparent rule-based multilateral trade system' (IMC-ERTF, 2012).

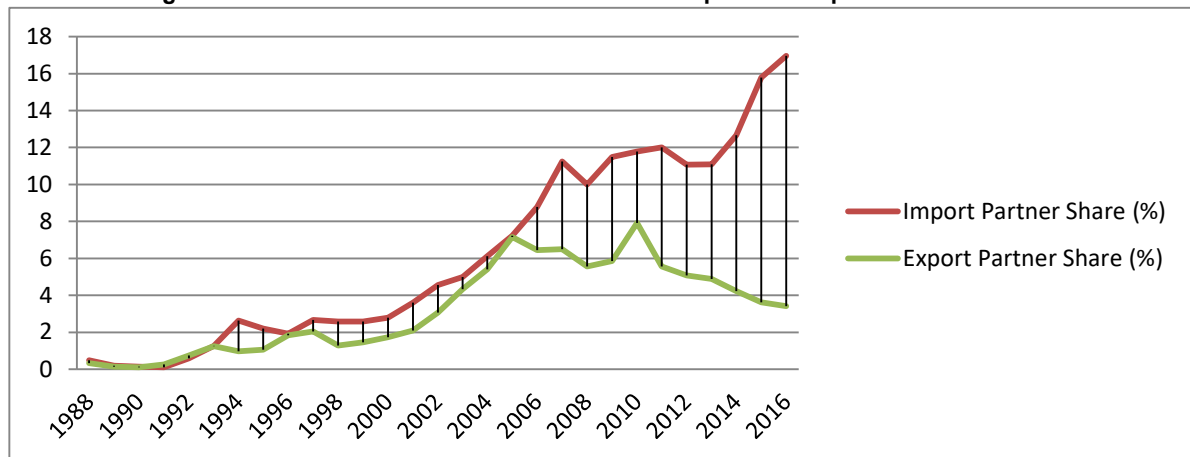
3.1. INDIAN EXPORTS TO CHINA

The major items of Indian exports to China are ores, slag and ash, iron and steel, plastics, organic chemicals, and cotton. In order to amplify the extent of exporting goods to China, India should emphasize investments and trade in services, as well as

also on knowledge-based sectors. The other potential items of trade between India and China are marine products, oilseeds, salt, inorganic chemicals, plastic, rubber, optical and medical equipment, and dairy products. Further, the potential also exists in areas like biotechnology, IT and ITES, health, education, tourism, and the financial sector (Singla, 2015).

Further, Figure 4 shows the trend and pattern of export and import with China comparatively with other trade partners. It shows an increasing trend as Import has reached from 0.49 percent in 1988 to 17 percent approximately in the year 2016, whereas the level of export reached at the highest level in the year 2010 with 8 percent approximately.

Figure 4. Trend and Pattern of China's Share as Export and Import Partner of India.



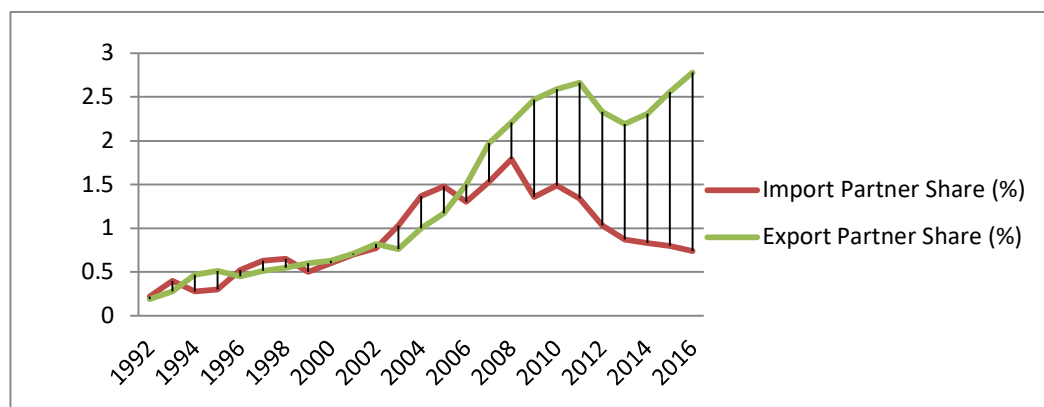
Source: Prepared by the author using data from the World Bank.

3.2. CHINESE EXPORTS TO INDIA

The main items that comprise Chinese exports to India are electrical machinery and equipment, cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, base metals and articles of base metal, plastic and articles thereof, rubber articles thereof, ceramic products, glass and glassware, miscellaneous articles, measuring instruments, clocks and watches, vegetable products and oils. Value-added items like electrical machinery dictate Chinese exports to India. This demonstrates that Chinese exports to India are fairly diversified and include resource-based products, manufactured items, and low and medium technology products (Hong, 2007).

The main imported goods of China from India consist of mineral products, base metals and articles of base metal, products of the chemical or allies industries, plastic and articles thereof, rubber articles thereof, textiles and textile articles, gems, precious metals, machinery, and equipment, electric and electronic products, leather and leather thereof, vegetable products, footwear, headwear, etc. Further, Figure 5 shows the fluctuating trend and pattern of export and import with India comparatively with other trade partners.

Figure 5. Trend and Pattern of India's Share as Export and Import Partner of China.



Source: Prepared by the author using data from the World Bank.

4. INDO-CHINA BILATERAL TRADE RELATIONS

The bilateral relationship between India and China is believed to be dating back to ancient times; even earlier than the establishment of any kind of political association, both countries get benefited from a broad range of economic and cultural affairs. The bilateral trade relation between India and China was booming through the 'Silk Road' which in due course became the essential link of China-India economic and cultural interactions (UNESCO, 2018).

China and India's entry into the World Trade Organization (WTO) has led to an increasingly important impact on the world economy known for their rapid growth and size (Mukherjee and Zhang, 2007). In the year 1984 India and China signed a Trade Agreement, which offered for Most Favored Nation Treatment, and soon after in 1994, the two countries signed an agreement to avoid double taxation. In the year 2004, the bilateral trade crossed US\$13.6 billion from US\$ 4.8 billion in 2002, which further reached \$18.7 billion in 2005. The Indo-China trade relations have been additionally developed from 2006, through the reopening of the Nathu La Pass after more than 40 years. There are three border trade points between India and China viz. Nathu La Pass (Sikkim), Shipki La Pass (Himachal Pradesh), and Lipulekh Pass (Uttarakhand) (Embassy of India, Beijing, China, 2017). China and India have pace up functional support in all areas on issues concerning counter-terrorism, policy planning, and security, in addition to strategic dialogue and regular consultations (Ministry of External Affairs, Government of India, 2012).

The bilateral trade between India and China in the year 2017 increased by 18.63 percent so as to reach \$84.44 billion. It is considered a milestone; because the volume of bilateral trade for the first time reached \$80 billion, which is more than the last year of \$71.18 billion. India's top exports to China in the year 2016 consist of diamonds with a share of 28.48%, cotton yarn amounting to the US \$ 1.27 billion, iron ore amounting to US\$ 844 million, copper and organic chemicals. India was the second-largest exporter of diamonds and cotton to China. Further, in 2016, India was the largest export destination of Fertilizers exports from China with a share of US\$ 1.54 billion and Chinese Antibiotics worth US\$ 711 million to India (Embassy of India, Beijing, China, 2017).

There are various institutional mechanisms for India's economic and commercial engagement with China such as the India-China Joint Economic Group on Economic Relations, Trade, Science and Technology (JEG) is a ministerial-level dialogue mechanism. In addition to this, a Joint Study Group (JSG) was set up to scrutinize the potential complementarities between the two countries in expanded trade and economic cooperation (India-China Economic and Cultural Council, 2015). Although the bilateral trade between India and China has achieved a new milestone, the trade deficit also keeps on growing high at \$51.75 billion leading to a growth of 8.55 percent in 2017 (NASSCOM, 2017).

5. PROBLEMS AND PROSPECTS: CONCLUDING REMARKS

In this swiftly changing globalizing world, the enormous superfluous working populations in India and China are making it vital for the rest of the world to identify these countries' main role in global competitive dynamics. Surplus labor in China has by now had a key impact on global inflation, and India has also an increasing role in persuading this development. In Asia, India and China are the biggest countries geographically and demographically. As the rivalry and competition between the two seem expected; the two economies are rising at the same time. Although China's rise was instigated more than a decade before India's and it has been more rapid. Nowadays, a substantial gap in the economic and military strength of the two countries has come forward and this provides China more alternatives on the international front and better opportunities in its transactions with India. Recent visits by top authorities on both sides are indicative that a greater emphasis has been put on improving links in economic and trade cooperation. Likewise, the working out of bilateral synergies in obtaining overseas energy assets and the setting up of joint ventures impregnate positive trends in business relations between the two nations, signifying that one-time rivals can become good partners as well. Furthermore, both the Indian and Chinese governments identify that their associations are a factor of solidity in a multipolar world, and at a time of global instability and that "differences should not become disputes"; China's official news agency Xinhua later called for the ancient civilizations to become "cooperative partners", "develop complementary industries and cooperate in protecting common security" for "achieving the dream of an Asian century" (Sanwal, 2017).

Nevertheless, for both China and India, their rise to recognition is not without its share of difficulties and challenges. Much of the aforesaid success remains mainly true of China with India a little bit behind. Nothing matches up to the level of India-China bilateral trade when it comes to assessing the affirmative trends in post 60's India-China relations. Beginning with an enormously slow rate, with an annual turnover of only a few million dollars, and then lying on the boundaries for much of the 80s, their trade has steadily come to take up the center stage of their relations. In the short run, their current institutional measures and keenness foretell very well for their persistent trade knock, which can put in a great arrangement to their mounting confidence in each other and their nascent long-term strategic partnership.

Although the increase in bilateral trade is by far the most positive long-term progress in relations between China and India, sometimes, economic relations can also be problematic, for instance, a large amount of the illegal mining in the southern

Indian states of Karnataka and Andhra Pradesh, which is the main cause of environmental degradation and political corruption in the region, was connected to growing Chinese demand for iron ore (Guha, 2012). India and China both are making efforts to get better the relationship with each other so that trade and investment between the two can be amplified.

The other concern which might affect the scenario of India-China economic relations is the exchange rate regime in China, as the authorities in China artificially keep the Chinese Yuan undervalued against world currencies and this step helps its world exports, mainly exports to the bordering countries in Asia. India may have to vigilantly study the implications while competing with China for markets. The New Silk Road Belt and the 21st Century Maritime Silk Road offer to assist energy supplies connectivity to China from abroad. On the other hand, Indian initiatives to respond to those taken by China seem to be inadequate. Indian entities like Oil and Natural Gas Corporation (ONGC) continue to face challenges from Chinese companies such as China National Petroleum Corp. (CNPC) in winning prospective oil and gas opportunities in the third countries (Rajan, 2015).

Furthermore, China and India were among 21 Asian countries to sign on to a new infrastructure investment bank i.e., the Asian Infrastructure Investment Bank which would compete with the World Bank. To improve the relationship further, India needs to make efforts with China in a global medium such as the World Trade Organization and the ongoing discussions for a Regional Comprehensive Economic Partnership as the two can have a better articulate jointly.

Therefore, the Indo-China relations took a new turn towards engagement, growing economic ties, and increased multilateral cooperation since the early 90s. In recent years, the Indo-China relationship has been coordinated by progressively pragmatic foreign-policy approaches by both nations. However, the potential of India-China to maintain long-term regional solidity will depend on their capability to administer competing strategic and economic interests through a policy of positive engagement and conflict resolution. For the time being, economic relations between China and India are likely to intensify and their collaboration in bilateral settings will persist every time their interests match.

CONFLICT OF INTEREST

None.

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