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Trade relations between India and China: An overview

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Abstract
The India china relation, also called Sino-Indian relations or Indo-China relations, refers to the bilateral relationship between the People's Republic of China (PRC) and the Republic of India. Historically, the India and China have had relations for more than 2,000 years, but the modern relationship began in 1950 when India was among the first countries to end formal ties with the Republic of China (Taiwan) and recognize the PRC as the legitimate Government of Mainland China. The China and India are the two most populous countries and fastest growing major economies in the world. The growth in diplomatic and economic influence has increased the significance of their bilateral relationship. In case of external trade, China is a net exporter having continuously trade surplus; on the contrary, India is a net importer with an evident trade deficit for last several years. The China has mainly been dependent on exports for stimulating growth as compared to India. China export has a larger share in its GDP compared to the contribution of India's exports in its GDP. The India may overtake China as the world fastest growing major economy by 2015, as the nation doubles infrastructure investment and adds six-fold more workers than it does. Even economic growth from the country may accelerate to 9.5 per cent between 2011 to 2015. Even India could attract more long-term direct investment than China on better rate of returns in Asia third-largest economy, as the rupee is expected to appreciate against the dollar this year.

Keywords: India, China, trade relations, agricultural reforms, industrial reforms, exchange rate

Introduction

The India china relation, also called Sino-Indian relations or Indo-China relations, refers to the bilateral relationship between the People's Republic of China (PRC) and the Republic of India. Historically, the India and China have had relations for more than 2,000 years, but the modern relationship began in 1950 when India was among the first countries to end formal ties with the Republic of China (Taiwan) and recognize the PRC as the legitimate Government of Mainland China. The China and India are the two most populous countries and fastest growing major economies in the world. The growth in diplomatic and economic influence has increased the significance of their bilateral relationship. The China and India the fastest growing countries, have emphatically made their presence felt in the rapidly globalizing world economy, both the countries are among the major countries in the global population as both the nations contribute 39 per cent of the world's population and 6.8 per cent of the value of world output and income at current prices and exchange rates. The rapid economic growth, large Foreign Direct Investments (FDI) and growing trade along with the whole world are some of the peculiar characteristics of both the countries of development. But both differ from each other immensely in relation to their political background, nature of development specially economic and its approaches like exchange rate arrangements opted by both the countries. In this backdrop, a comparison between the two along with their trade relations with each other and with the rest of the world becomes attention-grabbing.

The China and India both had attained the liberation from imperialist domination over a century. The impact of this imperialist rule had a different corollary on the two nations as the nature of this imperialist rule differed in both the countries. For over the period of hundred years, India endured a single imperialist rule of Britain, whereas, Chinese empire had witnessed five imperialist rulers. The India had more elaborate and established infrastructure facilities such as railways, roads etc., and advance communication systems than that of China. Even it was ahead

In literacy rate and higher education, most of the irrigation facilities and fertilizers had been diverted to cash crops as a part of British policy. Unlike India China had focused more on developing a particular agricultural pattern, known as an operating crop rotation system. As a result, despite the neglect of investments in agriculture, China achieved a significant improvement in the growth rate of food grains, which was about six times higher than India by 1952. The china had more stabilized agricultural system, whereas Indian agriculture was developed as per the needs and requirements of British rule. At 1950, India and China founded their republics, the China had a relatively comfortable food surplus, which accelerated its industrial growth whereas India suffered badly experiencing food grain crises for a long period, which restrained the rapid industrialization growth in the country. The performance of agriculture remained on the similar ground during the same period but the per capita output was much higher in China due to low level of population as compared to that with India.

In 1978, China began focusing reforming its closed, centrally planned, non-market economy by opening trade with the rest of the world, by which farmers could sell their surplus crops in the open market. India, on the other hand, began with small deregulations as it has a large private sector which was subject to rigid state controls and then in 1980 it started opening up gradually with more liberalized imports. The more systematic and systemic reforms in India have been seen only after 1991 when it has experienced the severe macroeconomic crisis. The China economic growth has averaged 9.4 per cent per annum since 1978, whereas India's economic growth, after adoption of major liberalization measures in 1991, has been averaged at achieved average growth of 6 per cent a year. Today, China has outpaced India in almost all sectors that are considered as key indicators of economic growth. The only exception to it is information technology (IT). The standard of living in China has been more than twice than that of India with gross domestic product (GDP) of China crossing twice the level of India's GDP. The both countries recorded immense growth from past several years as they together account for 6.4 per cent of the value of world output and income at current prices and exchange rates. More interesting is the growth in GDP of India has shown an overwhelming growth of 7.6 per cent (2001-09) as against 5.5 per cent registered in (1981-90); whereas china's GDP has shown a slight improvement to 10.5 per cent in (2001-09) as compared to 9.3 per cent in (1981-90). Although in nominal US dollar terms GDP for China and India has grown at an average of 13.8 per cent and 6.9 per cent, respectively, during (1991-2009).

The India and China agrarian economies were not that compatible to stand on their own in the global marketplace. Thereafter, economic planning of both the countries lead as a short cut to industrial progress and turned out to be a cul-de-sac. Later, economic liberalization at home and globalization abroad triggered two decades of sustained high growth for India and China. The approach towards the development in both the countries has been distinctly different from each other. India adopted services based growth model whereas China preferred manufacturing led growth strategy. The share of industrial output in China's GDP has gone up remarkably to 46 per cent in 2009 as compared to 26 per cent in India. Whereas share of service sector in India has contributed the majority of GDP, 55 per cent as against that in China of 43 per cent. The India agricultural share in GDP is higher than that in china, but average growth in agricultural GDP (2001-2009) is lower than that witnessed in china i.e. 3 per cent in India and 4.2 per cent in china. Both countries have cut the share of agriculture in total investment.

The India and China today represents Asia two largest and most dynamic economies which are emerging as new trend setters in international relations. The history of bilateral relations between India and china dates back to mid-1980. The process of dialogue initiated by the Governments of the two countries at that point of time was quite helpful in identifying the common trade interests. The efforts were initiated to make the most of their economic strengths so as to further the economy relations between India and china. In the year 1984, India and China entered into a Trade Agreement, which provided them with the status of Most Favored Nation (MFN). It was in 1992 that the India and china got involved in a full-fledged bilateral trade relation. The year 1994 marked the beginning of a new era in the India- china economic relations. In this year a double Taxation Agreement was signed between India and china. The Government of both the countries also took the necessary initiative to turn into dialogue partners in the Association of Southeast Asian Nations (ASEAN). In 2003, Bangkok Agreement was Signed the two countries. Under this agreement both India and china offered some trade preferences to each other. India provided preferences on tariff for 217 products export from India. In 2003, India and china entered into an agreement to initiate open border trade via the Silk Route. The two countries have also shown interest to take part in a multilateral trade system as per the WTO commitments. The China has already been the top trading partners of India in the recent time. The economic relation between the two countries is considered to be one of the most significant bilateral relations in the contemporary global economic scenario and this trend is expected to continue in the years to come. Today, China is India largest trading partner, whereas India is within the top ten of China trading partner. Total Bilateral trade between China and India was about Rs.368989cr. at the end of the 2012-13. Both countries have proposed, with confidence, the goal of increasing bilateral trade to $150 billion by 2018.

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. The great potential also exists in areas like biotechnology, IT and ITES, health, education, tourism, and financial sector. The Chinese exports to India are electrical machinery and equipment, cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils. The 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. Especially the developments of drivers are.

Agricultural Reforms

After independence India initiated some land reforms by dividing land among the tenants and introduced the green revolution, which increased agricultural output in the 1960. There were no major reforms in agriculture since the broader macro reform process began in 1991. The Government spending on infrastructure for agriculture has been very low and 40 per cent of the land is irrigated, leaving farmers to the vagaries of monsoons. Over the past few years, the Government has launched some initiatives to accelerate agriculture growth, including allowing exchange trading of commodities; encouraging states to reform laws to liberalize marketing of agricultural produce; and encouraging banks to increase lending to the agriculture sector. The Government decided to increase its rural spending plan and so in March 2006, Premier Wen Jiabao announced that the Government would make a concerted effort to build a new socialist countryside over the next five years. The share of agriculture in India GDP (2009) is 20 per cent while that of in china is only 10 per cent, but the average growth in agriculture GDP is 4.2 per cent higher than in India 3 per cent.

Industrial Reforms

The Indian Government abolished licensing requirements for setting up all but 18 industries in 1991 and abolished the Monopolies and Restrictive Trade Practices Act, which constrained corporate acquisitions and over-regulated business practices. In 1998-99, further de-licensing took place and now licenses are required only in industries such as alcohol, tobacco products and those pertaining to defense equipment. In India, the disinvestment process initially focused on the transfer of minority rights to public and financial institutions. However, no controlling right was sold to the private sector. In 2003-04, the Government privatized a few public sector enterprises, where it passed the controlling interest to strategic investors. However, the sale of controlling stakes is unlikely to take place in India in the near term, with a clear change in government policy in this area. The public sector accounts for about 25per cent of industrial output.

Differential Exchange Rate

The exchange rate of rupee in India has been determined in the interbank market, wherein, Reserve Bank of India (RBI) has the authority to intervene, when it feels the necessity, in the form of purchasing and selling spot and forward US dollars. China has adopted conventional pegged exchange rate arrangement, wherein currency of China (renminbi) gets determined in the interbank foreign exchange market. The State Administration of Foreign Exchange (SAFE), which is managed by the people's bank of China (PBC), announces a benchmark rate for renminbi against the Hong Kong dollar, the US dollar, the euro and the yen, based on the weighted average exchange rate that prevailed in foreign exchange transactions on the previous day. The China exchange regime is one of the major topics in the strategic economic dialogue between China and the United States, which began in September 2006. While almost all other currencies are appreciating against dollar, China, though facing pressure from the rest of the world, has been able to keep its currency stable. Currently, China and India on 2nd September, 2010 urged stability in major reserve currencies and in nations macro- economic policies to help cement the global recovery.

Trade Links - India and China

In case of external trade, China is a net exporter having continuously trade surplus; on the contrary, India is a net importer with an evident trade deficit for last several years. The China has mainly been dependent on exports for stimulating growth as compared to India. China export has a larger share in its GDP compared to the contribution of India's exports in its GDP. Both exports and imports in terms of value have been huge in China as compared with India. China exports have seen a continuous rise in the growth during the period from 1999-00 to 2006-07.Whereas India exports have varied in between 14 per cent to 20 per cent during the same period. China exports have reported to be at 24.1 per cent in 2009, while imports were at 19 per cent depicted a rise in exports as compared to that of imports. While in case of India exports were at 13.7 per cent much lesser than the imports of 22.4 per cent. There is stark difference in both the countries considering the external trade balance. The China has witnessed a trade surplus of 5 per cent, whereas India trade deficit has been widened to (-8.7 per cent) during the period under consideration. The share of goods exported to the world from India has been continuously tumbling since 1950, although, shown a slight improvement after 1990 and have been able to attain 0.9 per cent in 2000. In case of china, exports of share declined till 1970 thereafter there have been robust growth, especially during 1990-2000 resulting to 6.8 per cent. India had a had a 0.7 per cent share of world service exports in 1980, this position has been steadily eroded, sliding to 0.6 per cent in 1990 and thereafter showing an enormous improvement of around 1.9 per cent in 2000. In contrast, China share rose sharply to 3 per cent in 2000 from 1.4 per cent in 1990 and 0.7 per cent in 1980. The China has been able to accelerate the process of integration into the global economy at a much faster pace than India. However, China exports have grown at a much faster pace than India in the first few years post the implementation of reforms. On a sector basis, India top exports are biased in favour of sectors with high labor intensity and low capital intensity. The India top five export segments are commercial services, gems & jewellery, engineering goods, agricultural goods and textiles. In comparison to it China success is higher in segments with high labor and capital/infrastructure intensity. China top five export segments are: electronics, computers & telecommunications, machinery, garments and services. Indeed, in terms of global export share, India leads China only in the steel and software sectors.

Trade Relationship

The India and china trade relationship is comparatively stronger in terms of imports and exports among the other countries. The India enjoys a positive balance of trade with China. According to the China Customs, the bilateral trade volume between China and India in 2004 reached US$13.6 billion, up by 79.1 per cent, among which China export to India was US$5.92 billion, up by 77.3 per cent, while China import from India was US$7.68 billion, up by 80.6 per cent. The China mainly exported machinery and equipment, electric and electronic products, products of the chemical or allies industries, textiles and textile articles, mineral products, 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, etc. The major imported products of China from India included 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. As far as imports from China are concerned, the principle commodities like electronic goods machinery except electric and electronic, organic chemicals coal, coke & briquettes, iron and steel etc. have seen a sharp rise during 2000-01 to 2014-15. The share of China in total imports of India has gone up significantly from 3 per cent in 2000-01 to 9.1 per cent in 2014-15. Recently, Chinese premier reiterated that India and China would take their trade to $36 billion level by 2015 on the back of whopping growth in Sino-Indian trade. China outlined a five-point agenda, including 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. The India had unfavorable balance of trade with China. While China continues to enjoy a huge favourable balance of trade vis-à-vis most other smaller states of the South Asian region, it is only the India-china trade that has remained to be China most balanced trade in South Asia. However, both these nations are growing very fast and can propel the future world economy with a pool of the world’s largest skilled work force. Chinese analysts believe the imbalance is likely to keep growing in the short term due to structural problems. India's trade deficit with China is expanding. The imbalance is mainly because India has limited exports to China, while Chinese manufactured goods have a competitive advantage in the Indian market. The slower growth pace in China in recent years, together with overcapacity in the steel and iron sectors and the Chinese Government tightening policies in the real estate sector, reduced demand for Indian raw materials mainly iron ore and iron sand, which account for the bulk of Indian exports to China. The reason behind India increasing trade deficit with China. The trade imbalance is rooted in India trade structure. The India trade deficit with China will not be reversed in the foreseeable future. Any change depends on whether India can export products that meet the demand of the Chinese market. While swamping the Indian market with its products, the China has made it difficult for Indian exporters to gain much of a foothold in its own market, including in sectors where India is strong, such as pharmaceuticals and information technology. As a result, India exports to China largely consist of low-margin, unprocessed commodities.

The India total export & import and balance of trade with China over the study period from 2006-07 to 2014-15 in absolute as well as in relative terms. The total export of India to china was increased by 133 per cent in the period in Rs 37529 cores in 2006-07 to Rs. 87470 cores in 2014-15 except 2008-09 & 2012-13, where it was reduced by Rs. 636 crores & Rs.14118 crores in comparison to previous year. The total import of India from China was increasing continuously over the study period i.e. Rs. 79008 crores in 2006-07 & Rs.295637 crores in 2012-13 except 2008-09, where it was declined by Rs.1557 crores compare to the previous year in absolute terms. The balance of trade was increasing continuously except 2009-10 and was unfavorable to India during all the seven years of study period in absolute terms. The AGR of balance of trade was highly fluctuating and negative i.e. 60.17 per cent in 2008-09 and -12.97 per cent in 2014-15. The trend value of balance of trade was showed an increasing trend over the study period. Hence, table revels that balance of trade with China was unfavorable due to more increase in import to export business. So, India should try to increase their export and decrease import with china to obtain a favorable balance of trade in future.

Future Outlook for India & China

Economist from Morgan Stanley reiterated that India may overtake China as the world fastest growing major economy by 2015, as the nation doubles infrastructure investment and adds six-fold more workers than it does. Even economic growth from the country may accelerate to 9.5 per cent between 2011 to 2015. Even India could attract more long-term direct investment than China on better rate of returns in Asia third-largest economy, as the rupee is expected to appreciate against the dollar this year.

The key factors that India is expected to do for the developments are:

- The aim to sustain its economic growth in order to surpass China economy and regain the pre-eminent position that it held at the international level. Albeit, it would be daunting challenge for India as its GDP is just $1.25 trillion, about one-fourth of China.
- The ensuring to have a sustainable defence budget (which would not burden the economy) by being selective to the key areas for military modernization.
- The creating a cooperative security arrangement, particularly involving China, so that the prospect of war is eliminated. This might prove to be the most ambitious challenge of them all.
- The Indians need access to capital, credit, skills and markets to climb the productivity ladder. It is bound to be a long and arduous journey.
- In the back of slowdown in US economy, the economic activities in these countries have become increasingly significant for the whole world, owing to which both the countries are trying to accelerate the development by expanding their economic base. The India GDP has expanded at an average of 7.1 per cent over the decade through the third quarter of 2009, as compared with 9.1 per cent in China, which surpassed Japan as the second largest economy last quarter. Both the countries are making efforts to improve the relation with each other so that trade between the two can be increased. Recently, India

and China have decided to set up a working group that will prepare a framework to resolve their decades-old border dispute. Although, India, is far behind China in many respects, but it has a potential to achieve that level.

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