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India's Trade with China – A Step Forward

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Abstract

Today India's relation with China Is considered as most priority one, not only for Asian countries but also for the whole world due to their rapid growth of economic, The developmental successes of the People's Republic of China (PRC) and India are reshaping the economic landscape of not only Asia but also the world, this is because these two Asian Giant are in power to affect not only economic sector but as also the world politics. India and China economies have demonstrated threats to the international market due to challenges they have posed to the global market, as China is leading in manufacturing sector popularly known as "factory of word manufacturing" on the other hand India is well known for its quality in service sector. Today China is the number one trading partner for India followed by USA and UAE on the other side India falls into each of the four major categories of countries that China wants to focus its diplomatic energies on, that is developing countries, neighbouring countries, rising powers and influential actors on the international stage. "China realizes that its ties with India will be the key to ensuring stability in Asia. Given its chickened history, this relationship requires personal care at the highest level" (www.atimes.com/atimes/China/HK14Ad01.html). Currently the relationship between the these two Asian superpower nation is mixed in nature as there in greater chance of cooperation in field of trade and commerce at the same time there is mistrust and mutual suspicion in field of political and geographical area as it has happen in the year 1962. Apart from mutual benefit from cooperation on each side still there are a lot of challenges in India-China relation as Aiyar (2006) suggests strongly, the task of strengthening Sino-Indian ties will require painstaking work, changing fixed mindsets and balancing a complex set of factors (www. atimes. com/ atimes/ China/ HK14Ad01.html).The beauty of international trade is that it enables every country to specialize in what it does best, export these specialties, and use the money to import what other do best. All countries end up specialising in what they do

Best, improving global productivity and reducing prices for everybody. In this light this paper tries to examine the past and current position of India's trade with China to know their affect on other developing nations.

Keywords:

Altman's Z score, Financial Ratio & Industrial Sickness etc

Introduction

In 1950s, India and China were seen as economics in which different political and economic models for newly-independent and developing countries were being tested – democracy with a socialist leaning in India and classical Marxism in China. The current reality is that both countries have moved away from those doctrinaire approaches and are perhaps closer to market-driven policies like many "capitalist" countries. Besides facing the similar Developmental challenges the two emerging Asian giant The developmental successes of the People's Republic of China (PRC) and India are reshaping the economic landscape of not only Asia but also the world, The economies of India and China are somewhat parallel and competitive Today they need to learn from each other's experience in meeting their common challenges. The successes and failures of the both these nation in their desire to transform and grow will also provide some valuable insights on development policy to other developing countries in Asia. As China and India are the fastest growing nation on the world with 40% of the world population However, their combined area is only 8.64% (India : 2.2 & China : 6.44) of the world's land mass and there Their outstanding economic performance was triggered and has been supported by wide-ranging economic reforms implemented over the past few decades. During the last 30 years average growth rate (GDP) of China was is excellent, and satisfactory for India which are 10% and 6% respectively. After the independent in 1947 and 1949 both India and China followed the policy of a closed economy by trying to make themselves self-sufficient nation based on agriculture and home Industry but this was not sufficient to meet the needs of such a big population thus they suffer a lot and it created the need of reforms in these Economy. Chinese and Indian economy was reformed in the year 1978 and 1991. Chinese GDP was lower than that of India in absolute terms in 1978 but caught up with India in the very next year. The size of Chinese economy (in 1991) now was 1.47 times that of India. In 2008, the size of Chinese economy was 3.58 times that of India. (R.Himachalpatyi)

Comparison of growth rate in pre & post reform era of China & India

Growth rate; %	China	India
Pre-reform period(10years)	5.5	5.7
Post-reform period(10years)	10.1	5.9

Sources; world development Indicators, World Bank

The table clearly shows that the growth rate in China has doubled in 10 years period after economic reforms; however India registered only a nominal growth in post-reform period. China's joining into WTO in 2001 acted as catalyst which boom its economy more faster. China seems to perform better than India. For many years, China has been the largest FDI inflow country which absorbed more than half of FDI flowing in developing countries. Even though the amount of FDI inflows in India has increased greatly after India's new economic policy, the gap still existed not only in absolute amount but also in comparative scale index of FDI inflows between two countries.

Review of related Literature

***sheng. Yu and Tang. Hsio Chink (July 2012).** The Impact of ACFTA on People's Republic of China-ASIAN trade: estimated based on an extended Gravity Model for component Asian trade result from the extended gravity model show that, the free trade agreement leads to substantially higher bilateral trade between Asian and People's Republic of China, more than what a conventional gravity model predicts, the increase is concentrated in the Asian Countries with stronger Industrial linkage with PRC. The key result suggest that ACFTA will have a substantially larger impact on bilateral trade of flow between PRC and ASEAN than what the conventional gravity model predicts, especially given the close international production linkage and high proportion of trade in parts and components within the region

***Singh. Nirvikar(2010)** on the dynamics and status of India's economic reforms. Noticed that India actually has a process of debate and change implementation that is quite understandable, academic ideas are often a starting points or experiences gleaned from past mistakes or benchmarking against other countries.

***Whaley. john, Shekhartanmaya(2010)** highlight that in decades ahead if India and China will each become an even more major presence in the global economy. This has been widely recognised, but what has been less well documented is the even more rapid growth of trade and investment between the two.

***Agarwal. Pradip and Sahoo. Pravaskar** in economic and political weekly on China's Accession to W.T.O, implication for China's India highlighted, the likely impact of China's accession to W.T.O. is not only elimination of the uncertainty of access to U.S and world markets but also an increase in import, export and FDI inflow. This implies an increase in economic activity and possible a higher growth rate of GDP (unless the imports increase much more than exports, which are not very likely).

***Sharma. Ramesh (April 2008),** on China, India and AFTA: evolving bilateral agricultural trade and new opportunities though free trade agreement, focus on important to some limitation in projecting potentials for trade based upon historical trends, as the TCI and TC/td measures do. one is the difficulties in extrapolating recent trends to the future when trade is growing rapidly, as is the case for Asia generally, and with china in particular.

***Nicholas R. Lardy** investigated on trade liberalization and its role in the Chinese economic growth and he concluded that China is the best example of the positive connection between openness and economic growth. Reforms in china transformed it from a highly protected market to perhaps the most open emerging market economy by the time it came into the world trade organization at the end of 2001.

***Wei (2005),** highlights China's large domestic market as a major determinant of its inward FDI and OECD countries for both the domestic market and cheap labour cost are important. China's better performance in attracting FDI and OECD countries also reflects its trade ties to the OECD. India has advantage of lower labour cost, geographic closeness to OECD and more cultural similarity and has begun to close the gap more recently.

***Yang. Youngzheng Yang** on China's integration into the world economy: implication for developing countries concluded that China's emergence is not different from previous episodes of integration; but the impact is likely to be larger over time. China's growth and opening up are more likely to be benefiting developing countries in the long run and also China's integration into the world economy requires structural adjustment in other countries.

***Singh. Swaran (2001)** on his India-China Expanding economic engagement focus on that there is definitely need to continuously take stock of the nature and composition of their bilateral trade and commerce and to explore fresh investment opportunities and while both side open new vistas of economic cooperation, neither should underestimates the value of rectifying imbalances that may otherwise add to factors that disrupt their economic integration.

***Mu. Yanrui and zhou. zhangyue (2006)** on changing bilateral trade between India and China notice that high economic growth is expected to sustain for some time. This growth will generate more trade between two neighbouring economies.

Research Methodology/Method

Objectives of the study

The objective of our study is to examine the Current status of India's trade with China by examining the Volume of India's trade with China

Methods of Data Collection

Method used for collecting data for this study is Secondary in nature which are collected from different articles, Government reports, Newspaper, Magazines, Books, annual reports, and various web site of ministry of commerce, DGCI, RBI, Asian Development Bank, EXIM Bank, etc

Period of the study

The data used in this study is for last 10+ years from years 2003 to 2013, as it focuses more on current trends of India's trade with China.

Limitation & Scope of the Study

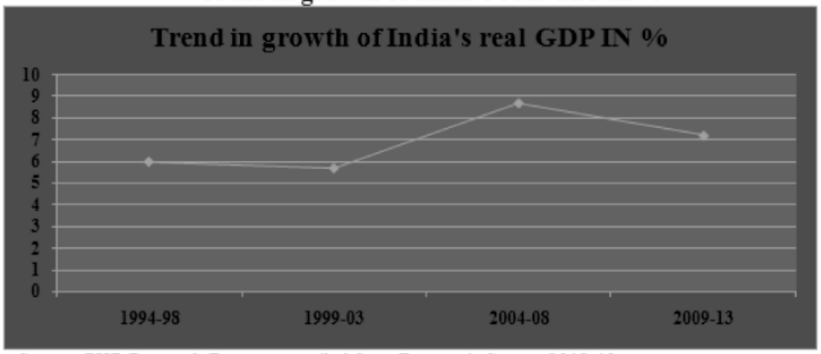
The study is based solely on secondary data, unavailability of data at same place was a big problem, and the reliability of the data also at some place could be questioned. While it's important is for the policy maker, academician, especially who are related with external affairs of our country India.

Growth of GDP in recent years

India

India is basically an excess demand and constrained supply country, the new economic policies after 1991 have played a major role in boosting India's growth and exploring a great range of growth prospects which were earlier Unexplored. In recent years Indian economy has done very well on the growth front, in the long term perspective, the growth rate increased significantly to a remarkable 8.7% (average) during the period for years 04-08. However, due to global economic slowdown and its contagion effect coupled with home grown vulnerabilities, the GDP growth rate subsided to 7.2% (average) during the period 2009-2013.

Trend in growth of India's real GDP in %



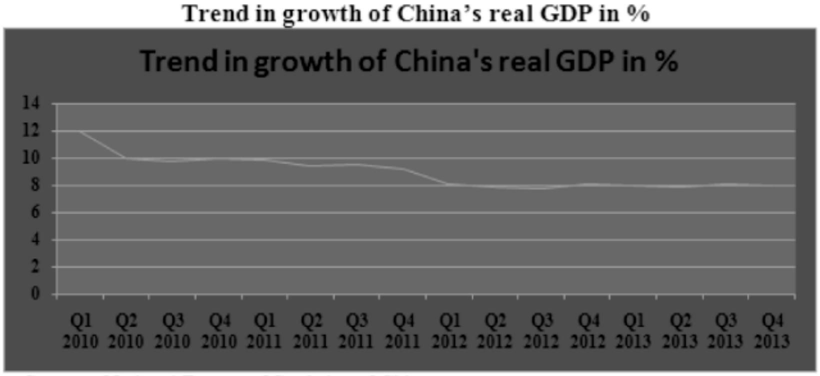
Source: PHD Research Bureau compiled from Economic Survey 2012-13

Thus there is a great chance that India will continue to deliver steady growth as it will be supported by demand conditions, rising incomes and favourable demographics. However, the country has potential to grow in the much higher trajectory, but this requires further structural reforms and accelerated implementation. In our view, structural reforms are a must if growth is going to pick up in faster pace and if double-digit growth is ever to materialise, going forward. (PHD Chamber of Commerce and Industry.2013)

China

The Gross Domestic Product (GDP) in China expanded 7.40 percent in the first quarter of 2014 over the same quarter of the previous year. GDP Annual Growth Rate in China is reported by the National Bureau of Statistics of China. GDP Annual Growth Rate in China averaged 9.14 Percent from 1989 until 2014, reaching an all time high of 14.20 Percent in the fourth quarter of 1992 and a record low of 3.80 Percent in the fourth quarter of 1990.

Trend in growth of China's real GDP in %



Sources- National Bureau of Statistics of China

Thus though there if fall in the GDP of china as compare to first quarter in 2010 in first quarter of 2014 economist suggest a cool down will be inevitable this year as officials and investors hunker down for difficult reforms and as a result economic reform there is still a good chance to regain its economic boom in the coming years. When we compare China's GDP growth with India's GDP, China's GDP is twice India's GDP. There is still chance of growth in Chinese economy growth rate.

Current Status of India's trade with China

China has emerged the major source of imports for India during the recent years (April 2014) by replacing USA and UAE. In 2004, imports from china were only of US$4bn which surged to US$27bn in 2008 and to US$52bn in 2013. China's share in India's imports has also doubled within the last decade from 5% in 2004 to about 11% in 2013 and this has led China to replace USA as India's major import source. USA with 11.6% share in India's total trade remained the top most trading partner of India in 2004. The total trade with USA reported about US $17 billion which is increased to US $42 billion in 2008 and US $76 billion in 2013.However, recent trends exhibited a declined its share to about 10% in 2008 and to 7.8% in 2013. While the trade with UAE has rose from US $7.2 billion in 2004 to US $29 billion in 2008 and to US $75 billion in 2013. Increased trade volume is accompanied by rise in its share in India's overall trade from 5% in 2004 to 7% in 2008 and 9.5% in 2013 and even replaced USA as a top trading partner (PHD chamber of commerce). According to recent trade data from April-

December 2013, China with 8.7% share in India's foreign trade have become the top-most trading partner of India followed by USA and UAE. This is considered as a significant change in India's foreign trade. Because, with China India's trade was only of US $7 billion in 2004 which increased to US $38 billion in 2008 and to US $65 billion in 2013. Corresponding to this growing trade trends between the two countries, not only China's share in India's overall foreign trade increased from 4.9% in 2004 to 8.3% in 2013, but also become the topmost trading partner of India according to the recent India's trade data of 2013(Apr-Dec) surpassing major economies like USA and UAE. The country has reported the trade worth US $50 billion with China with 8.7% share in the first nine months of the financial year 2013-14.

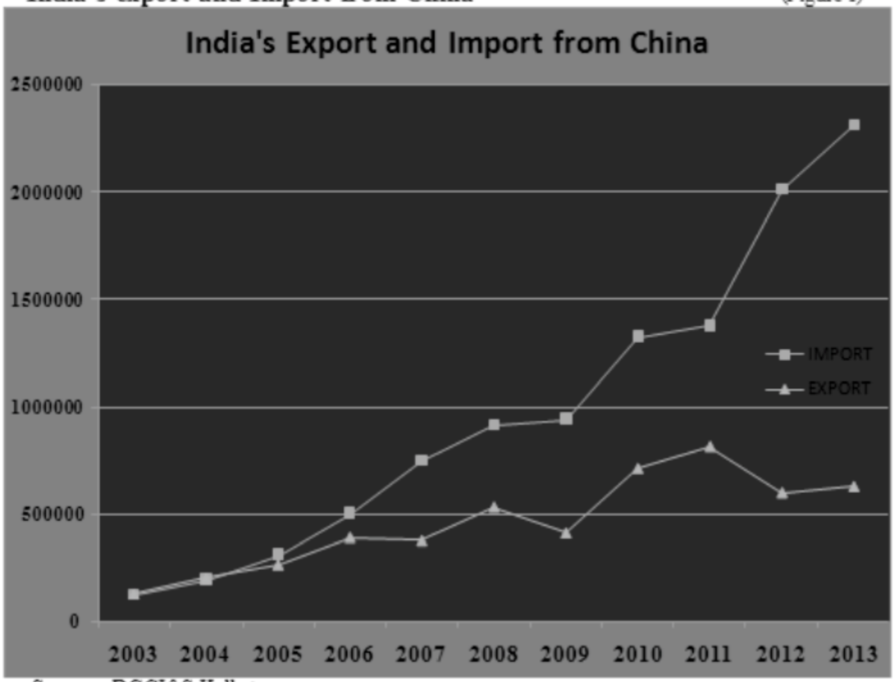
Current Status of India's trade with China

Value in Rs. Lakhs

YEARS	EXPORT	% CHANGES IN INDIA'S EXPORT TO CHINA	IMPORT	% CHANGES IN INDIA'S IMPORT FROM CHINA	TRADE BALANCES OF INDIA'S TRADE WITH CHINA
2003	129595.25	-	123072.27	-	6522.93
2004	203309.51	56.88037177	192822.24	56.67399326	10487.27
2005	265105.54	30.39505137	308565.99	60.02614118	-43460.45
2006	392795.09	48.16555324	501036.34	62.37574984	-108241.25
2007	377438.15	-3.909656814	744306.94	48.55348416	-366868.79
2008	533736.78	41.41039532	912684.09	22.62200457	-378947.31
2009	412268.83	-22.75802503	941053.88	3.108390988	-528785.05
2010	713523.46	73.0723761	1324321.21	40.72745867	-610797.75
2011	816018.81	14.36467835	1375651.35	3.875958462	-559632.54
2012	600682.83	-26.38860494	2013078.12	46.33636059	-1412395.29
2013	629392.76	4.779548968	2311475.91	14.82296127	-1682083.15

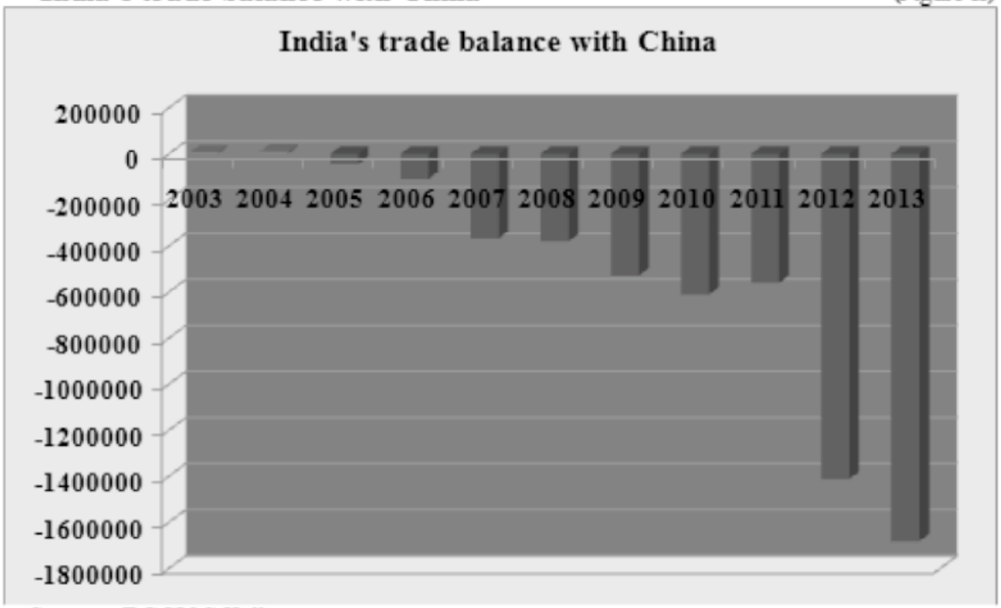
Sources- DGCI&S Kolkata

India's export and Import from China (Figure I)



Sources- DGCI&S Kolkata

India's trade balance with China (Figure II)



Sources- DGCI&S Kolkata

Findings

From the above mention figures and graph it is very clear fact that India's trade with China is in the great deficit (India's trade deficit with China reached a record $ 31.42 billion in 2013, with two-way trade declining last year by 1.5 per cent on account of a sharp decline in Indian exports) means India have very unfavourable balance. Only during the year 2003 to 2004 it has a moderate favourable balance of trade then in second quarter of 2004, it stated becoming unfavourable and it is in continue till today. when we look at the (figure I), it very clearly indicates the widening of difference between Export and Import, the line of Import is more straight and forward with respect to Import, India's Export to China is also increasing day by day but with lesser speeds, it was fair with very similar amount during 2003-2004, it manages to increase upto 2011 but after that it is falling down and is continued till now, when we notice about India's trade balance with China (figure II) which clearly Indicate a sharp decline in trade balance, as China is India's largest trade partner. But India runs a large trade deficit of $29 billion with China. Prime Minister Dr. Manmohan Singh reportedly told his Chinese counterpart, Li Keqiang, at their recent meeting that this "needs to be addressed." But as an economist he surely knows it is wrong to aim for balanced trade with each trading partner. Therefore India need to maintain its trade balances by exporting goods and service to other countries like Pakistan, Bangladesh and other Asian countries.

Suggestion

*India should export whatever it can to whichever destination is profitable at the best possible price. In turn, it should import whatever it needs from wherever at the best possible price. This implies that India should run a trade surplus with relatively uncompetitive countries (like Pakistan, Bangladesh), and run a trade deficit with highly competitive countries (like China, Germany).

*The more competitive the trading partner, the more India should buy from it, and the bigger should be the bilateral trade deficit. China is the most competitive exporter of all, so India should run its biggest trade deficit with this country. Far from decrying this, we should view it as evidence that India is, very sensibly, getting its needs from the cheapest source. To see this in perspective, consider Indo-Pak trade. Pakistan has long erected trade barriers against Indian goods, importing many items at prices higher than what India offers. This hurts both Indian exporters and Pakistani consumers

*Pakistan has promised to soon liberalise trade with India. When this happens, India's trade surplus with Pakistan will become even larger than it is today. That will be economically efficient, benefiting Pakistani consumers as well as Indian exporters. Yet many Pakistanis fret at the prospect, just as many Indians fret at their growing trade deficit with China. The fretting is unwarranted: large deficits in both cases are proof of sensible buying from the cheapest source.

*Both China and India still have far too many barriers to trade and investment, and these need lowering. Chinese non-tariff barriers are higher, and Indian negotiators must focus on this.

Conclusions

The outstanding economic performance of the emerging two Asian giant is due to the large size of their domestic markets, demographic dividends, information technology revolution, and proliferation of global production networks in the manufacturing and services sectors. No doubt India's trade with China is giving good result in the form of development on the same time India needs to be very careful about Chinese policy toward India and China's relation relations with other developed and developing nation of the world especially with china's relation with USA, Russia, Japan and Pakistan. The sustainability of China's economic growth is a key element of the global outlook on the other side India will continue to deliver steady growth, supported by strong demand conditions, rising incomes and favourable demographics. and as there economic power are rising day by day there is great chance of completion to establish its economic dominance In Asia as well as African countries because there are still unexploited resources and great opportunities in these region and these two nation are quite clever in using unused natural and other resources. After Joining WTO China quickly became the important manufacture base of international industries by right of cheap labour cost and good matching capacity on the same time India still lag behind China and it required more reform in its policy toward international trade and tariff. China and India's comparative advantage over primary products (agriculture) is decreasing and they are concentrating on the secondary and service sector, comparatively in the recent years India is better than China in proving services like information technology, banking services, tourism etc. Because of the abundant labour resources based on the large population, china and India keep their advantageous position in labour-intensive products. From above discussion it is also concluded that, China is less advantageous than India on labour-intensive products. Thus the developmental successes of the People's Republic of China (PRC) and India are reshaping the economic landscape of not only Asia but also the world.

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