India-China Trade Ties

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Abstract- India's trade relations with China are significant as China has been India's largest source of imports for the past 15 years. The rapid expansion of India-China bilateral trade since the beginning of this century propelled China to emerge as our largest goods trading partner by 2008, a position which China continues to hold today. Since beginning of the current decade, bilateral trade between the two countries recorded exponential growth. Growth in bilateral investment has not kept pace with the expansion in trading volumes between the two countries. While both countries have emerged as top investment destinations for the rest of the world, mutual investment flows are yet to catch up. This boom in trade has also introduced new trends. The two states are no longer only recipients on foreign direct investment but have entered into a new phase of being investors, both mutually as in other regions. In this new context, the increasing deficit in the energy sector and the competition to capture new markets present major challenges to sustaining this boom in their bilateral trade.

Keywords

Balance of Trade, Geopolitics and Personal Interest

1. INTRODUCTION

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. Over the years, China has emerged as the epicenter of the global supply chain. Notwithstanding the on-going trade war between China and the US, the pandemic, and the clamor for "China-plus-one" strategy, the key role of China in global merchandise trade seems unaffected. While many countries were not at ease with over-dependence on China for their imports, China continues to be a key trading partner for diverse countries all over the world. India is no exception. China and India today represent Asia's two largest and most dynamic societies which are emerging as new trend setters in international relations. From the global perspective, China and India today represent two unique new players—presenting an extraordinary combination of a very large GDP and still with significant poverty and pockets of unrest and a very low per capita income and living standards. This unique combination raises several questions about their becoming major drivers in international economic trends. However, in the politico-strategic sphere, their recent economic success has resulted in both seeking an expanded space in regional as well as international decision-making, something that is becoming a matter for worldwide concern. The context of China-India bilateral trade itself—bilateral as well as regional and global—has been changing rapidly. At the bilateral level, this is self-evident in the way their rapidly growing trade partnership has provided a great boost to their ongoing political confidence-building.[1] It is the nature of China-India bilateral trade as a confidence-building measure that must be underlined to appreciate its interface with their political relations which remains so critical for its long-term prospects. Therefore, more than being measured in terms of statistics and profits, it is the political impact of trade which remains the barometer of their economic engagement. Both sides clearly display that understanding at least in their more recent initiatives. Moreover, with the inclusion of India's trade with Hong Kong and Macao (as also India's rising trade with Taiwan, and the possibility of an eventual unification of Taiwan), Greater China has already emerged as India's largest trading partner and one of its kind. As regards an evolving overall institutional framework for their bilateral trade, the China-India Joint Working Group for the Boundary Question (JWG) remains the most generic and potent forum for all issues and sets the overall tenor of China-India relations. More specifically, the two also have a JWG for Trade and Commerce which is supported by a Joint Business Council that represents business interests, in particular of the non-state sector. They also have a JWG for Science and Technology that focuses more on research and development sectors. In operative terms, much of the norms and regulations for clearing road-blocks and evolving the new legal framework for trade are facilitated by their regular meetings. Besides, using such opportunities as Summits, many more agreements have been signed between individual Departments and Ministries from both sides.[2]

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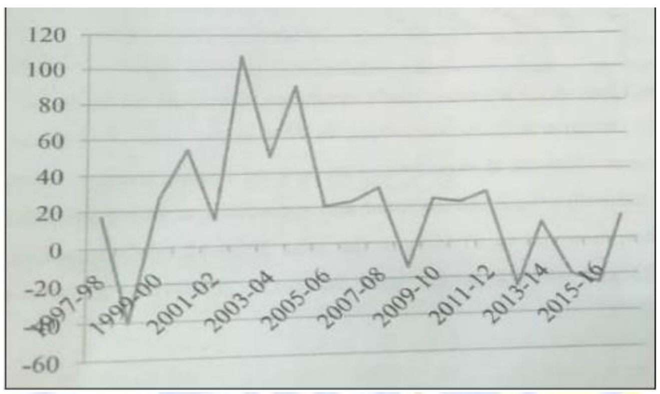
[1] Singh, Swarna "*China-India Bilateral Trade*", https://journals.openedition.org/chinaperspectives/2853

[2] For detailed chronological list on China-India agreements see Ministry of Foreign Affairs, People's Republic of China, http://www.fmprc.gov.cn

2. OVERVIEW of INDIA-CHINA BILATERAL TRADE

China has emerged as a rapid and socially developed country since the market reforms of 1978.It has moved from a Soviet-style centrally-planned to a market-based economy which is playing a major role in the global economy. China has been able to maintain a sharp increase in its export since mid-2000s and has become world's largest exporter in 2010 and the largest trading nation in 2013 (Fact book, 2017). Speedy progress of China is evident from the information, that in 1990, it was the 14th largest exporter with export at US $ 62 billion i.e., around 1.8 per cent of world export. Further in the recent years it has become world's seventh largest exporter with around 3.9 per cent of world exports. Correspondingly, if we look at the merchandise imports side of China, it became the second largest importer in the world in 2009. Measured on the basis of purchasing power parity (PPP), China overtook US and stood as the second-largest economy in the world, although in per capita terms the country is still poor. China has achieved GDP growth averaging nearly 10 annually, and has been able to lift 1.3 billion people out of poverty successfully.[3] Even though China's GDP growth has gradually slowed since 2012, it is still impressive by current global standards. India is developing into an open-market economy, yet traces of its earlier autarkic policies remain Almost half of the population of India is engaged in agriculture sector which contributes around 17.4% to GDP in 2014. However, service sector contributes the major part of GDP which is around 57.9%, while the industrial sector contributes 24.2% to GDP.[4] India's GDP averaged nearly 7% annually from 1997 to 2016 after undertaking Economic liberalization measures in early 1990s which included industrial deregulation, privatization of state-owned enterprises, and reduction in controls on foreign trade and investment. However, the growth rate slowed in 2011 as a result of high inflation, high interest rates and skepticism of investors about the government's economic reforms. Eventually, this macroeconomic imbalance resulted into a sharp depreciation of the rupee.



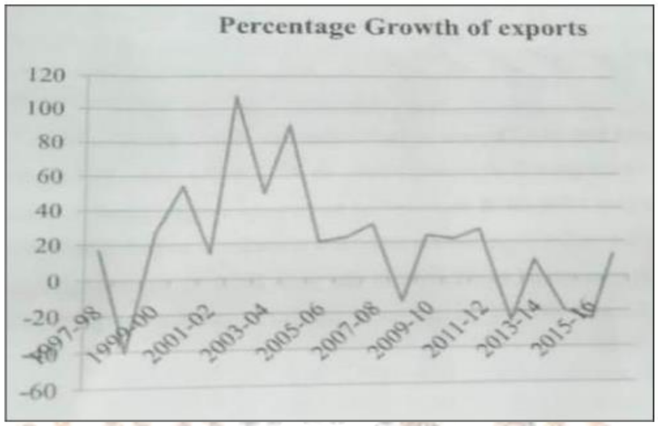
Source: World Bank Database Figure – 1 GDP Growth 1996-2017

Due to global meltdown, the growth rate of India dropped down to 3.9% in the year 2008-09 The highest growth rate recorded was in the year 2010-11 which was 10.3% China has become India's largest trading partner in the last few years with a bilateral trade t $71.5 billion in 2017, but it is heavily learned in favor of China. India's import from China recorded at |$61.3 billion, while its exports to China were recorded at $10.2 billion only.

India has already been the top trading partner of China in the recent time. The bilateral trade between these two countries is considered to be one of the most significant bilateral relations in the modern global scenario and the same is expected to continue in the coming years.

[3] Ma, Jun "*The Chinese Economy in the 1990s"*, London, Macmillan, 2000, p.121.

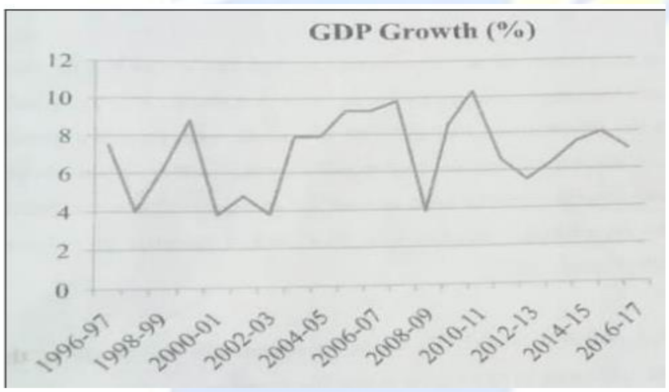
[4] *"Beijing establishes joint venture in India"*, Xinhua, cited in *Foreign Broadcast Information Service-China-93-013*, January 22nd 1993, p. 15.



Source: Ministry of commerce and industry, Department of Commerce, Government of India
Figure 2: Growth of expert 1997-2017

From figure 2, it can be seen that India's Export to China dropped down from 16.78% in the year 1997-98 to -40.5% in the year 1999-00. The figure shows a fluctuating but a positive trend in export till the year 2007-08, but recorded a negative growth in the year 2008-09, 2012-13, 2014-15 and 2015-16 with growth rates of -13.96%, -25.12%, -19.5% and -24.5% respectively.

The slowdown in China and supply disruptions have not reduced China's share in India's total imports, and in absolute terms, India's imports from China in 2021-22 are significantly higher than its pre-Covid level of imports. In 2020-21 and 2021-22, China's share in India's imports reached a record high of 16.53% and 15.43%, respectively, while the UAE was the second-largest source of imports for India with an import share of 6.7% and 7.31% in 2020-21 and 2021-22, respectively. China's dominance in total non-oil merchandise imports is even more pronounced as India's dependence on China for non-oil imports can be as high as 25% or more. Items of Import: India primarily imports electrical and electronic goods, organic chemicals including pharmaceuticals, and plastic items from China. These items account for more than 70% of India's imports from China



Source: Ministry of Commerce and Industry, Department of Commerce, Government of India
Figure 3: Growth of Import 1997-2017

Figure 3 shows a sharp decline in the growth of imports from 46.92% in the year 1997-98 to a negative growth of - 1.38% in the year 1999-00. It experienced an upward sloping trend in import growth till the year 2008-09, and thereafter the trend declined and recorded a negative growth of -5.15% in the year 2009-10. It then mounted to 41.06% in the year 2010-11 again recorded a negative growth of - 5.54%., 2.32 and -0.69% in the year 2012-13, and 2013-14 and 2016-17 respectively.

According to data from the Ministry of Commerce and Industry, India's exports to China have been growing steadily in recent years. In the financial year 2020-21, India's exports to China were worth $21.2 billion, up from $16.7 billion in 2019-20. Items of Export: The major items that India exports to China include organic chemicals, cotton yarn, copper, and ores. However, India's exports to China are still much lower than its imports from China, resulting in a large trade deficit.

3. BILATERAL TRADE DEFICIT

India's bilateral trade deficit with China is large and growing. In 2021-22, India's trade deficit with China was around $73.3 billion, and it is expected to cross $100 billion in FY23. India's trade deficit with China accounts for 38-40% of India's total merchandise trade deficit in the post-Covid era.

4. INTRIGUING TRADE RELATIONS

China's Domestic Consumption Policy: India's increasing trade imbalance with China is intriguing for some special policy reasons. China's GDP growth rate has slowed down since the Covid crisis, and the country has shifted its policies more towards domestic consumption. However, this policy shift has not affected Chinese exports to India. India's Withdrawal from RCEP: India has signed FTAs with several East and Southeast Asian nations, which should have taken some market share away from China, but this has not happened. India withdrew from the Regional Comprehensive Economic Partnership (RCEP), which puts India at a disadvantage compared to other FTA partners of China.

5. HEAVY IMPORT RELIANCE ON CHINA

From the perspective of the government, the political and security challenges are deepened when the state is dependent on importing products and services from an unfriendly country. India imports most of the Active Pharmaceutical Ingredients (APIs) it uses in its pharmaceutical industry from China. The cost of Chinese APIs is cheaper than the Indian ones even on the Indian market. The depth of the problem was revealed during the Covid-19 pandemic when due to travel restrictions, exports of Chinese APIs to India were temporarily restricted and consequently India had to cut its exports of APIs too. Approximately 24% of coal energy generated in India may be coming from plants that are using critical equipment imported from China.[5] This, therefore, may not necessarily be considered a strategic dependence, but is certainly a form of a security challenge. While there are demands to limit or even block such imports from China, this would simply mean forcing private Indian power companies to suffer higher costs.

6. TRADE IMBALANCE BETWEEN INDIA AND CHINA

China's manufacturing dominance: China has become a manufacturing hub for the world, with a vast industrial base that enables it to produce goods at a lower cost than India. This has led to China exporting a wide range of products to India, from electronic goods to textiles. India's dependence on Chinese goods: India is heavily dependent on Chinese goods, as it imports a significant amount of raw materials and finished products from China. This includes items such as machinery, electronics, and chemicals. Non-tariff barriers: There are several non-tariff barriers to trade between India and China, including complex regulatory requirements, intellectual property rights violations, and lack of transparency in business dealings.[6] These barriers can make it difficult for Indian businesses to access the Chinese market and compete with Chinese firms. Infrastructure and Logistics: India's inadequate infrastructure and logistics facilities result in higher transaction costs for exporters, making Indian goods less competitive in the Chinese market. Currency exchange rates: The exchange rate between the Indian rupee and the Chinese yuan also plays a role in the trade imbalance. The Indian rupee has been weaker than the Chinese Yuan, which makes Indian exports more expensive for Chinese buyers and Chinese imports cheaper for Indian buyers. This further exacerbates the trade imbalance between the two countries.

7. CONCLUSION

China has already been the top trading partner of India in recent times. The economic relationship between the two countries is considered to be one of the most significant bilateral relations in the contemporary global economic scenario. India has also made sustained efforts to achieve a more balanced trade with China, including bilateral engagements to address the non-tariff barriers on Indian exports to China. With the great exchange of goods and services, the two nations have been moving forward at an incredible pace and represent the most dynamic economies which are emerging as new trendsetters in international relations. India could possibly not venture into a full-fledged Chindla International Journal of Political Science and Governance strategy due to the above-mentioned reasons, India cannot, at this point, go completely the Chinese way and relax its FDI policies much, since it must also check platform control desires of other countries with respect to the Indian-based companies. Given the ongoing situations, what India needs to do is find a veritable balance: continue to cater to strengthen its trade visions and domestic market and get into a controlled partnership venture with China, subjected to persistent vigilance.

8. WAY AHEAD

India needs to subsidize its indigenous establishments. This would increase the demand for local products in the market over the imported ones. If these indigenously produced goods are qualitatively satisfying, they could gain prominence in the world market, thus making India's trade vision work. India must further take advantage of the US-China frictions and try to cut down China's exports to the US and thus start exporting more to the US. The situation has already benefitted India, since many of the US-based companies have considered to shift their investment to India from China. India could attempt this strategy with the other countries of the world as well. India could venture into a controlled partnership with China, where it could acquire the sole official partnership status for the trade of specific materials like software, ores, etc. This coupled with the point one will aid in minimizing the trade deficit. At this point, we do not know if India can overtake China in the coming years or compete with it on a long term basis, but India must take advantage of the ongoing COVID-19-driven situations and strategically attempt to compete with China.

India needs to reduce its dependence on Chinese imports by diversifying its imports from other countries such as Vietnam, South Korea, Japan, Taiwan, and Indonesia. India can focus on increasing its exports to China. India should focus on exporting high-value products like engineering goods, electronics, pharmaceuticals, and chemicals. These products have a higher profit margin and will help to increase India's foreign exchange earnings. India needs to develop its domestic industries to reduce its reliance on imports. The government can provide incentives to domestic companies to manufacture goods that are currently imported. This will not only help reduce the trade imbalance but also create employment opportunities in India. India needs to review its free trade agreements with other countries to ensure that they are not hurting domestic industries. India should also consider signing an FTA with China to increase exports and reduce the trade deficit.

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[5] *"Likely Sino-Indian FTA Conducive to Nation",* China Business Weekly, Peking, April 12th 2004, p. 1.

[6] "*A Status Report on China-India Trade & Investment 1998"*, Shanghai, Confederation of Indian Industries, November 1998, p. 4.