



## India – China Trade Relations: Recent Scenario

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### ***Abstract:***

India and China are two of the world's oldest civilisations and have co-existed in peace for millennia. During World War II, India and China played a crucial role in halting the progress of Imperial Japan. In 2008, China emerged as India's largest trading partner and the two countries have also attempted to extend their strategic and military relations. . In November 2012, the bilateral trade was estimated to be \$73.9 billion. Wen Jiabao, the Premier of China and Manmohan Singh, the Prime Minister of India set a goal to increase bilateral trade between the two countries to US\$100 billion by 2015. It was reported in February 2012 that India will reach US\$100 billion trade with China by 2015. According to a 2013 BBC World Service Poll, 36% of Indians view China positively, with 27% expressing a negative view, whereas 23% of Chinese people view India positively, with 45% expressing a negative view.

**Key Words:** Bi-lateral, Diplomatic, Economic ties, Friendship Year, Most Favoured Nation

### **Statement of the problem:**

India and China have been characterised by border disputes, resulting in three major military conflicts — the Indo – China War of 1962, the Chola incident in 1967, and the 1987 Indo – China Skirmish. However, since the late 1980s, both countries have successfully attempted to reignite diplomatic and economic ties. The Silk Road not only served as a major trade route between India and China, but is also credited for facilitating the spread of Buddhism from India to East Asia. During the 19th century, China's growing opium trade with the British Raj triggered the First and Second Opium Wars. India's export to China focuses on mainly primary products. In 1984, India and China signed a trade agreement, providing for Most Favoured Nation treatment, to foster greater cooperation between each other.

The principal items of Indian Exports to China comprise of ores, slag and ash, iron

and steel, plastics, organic chemicals, and cotton. At present, iron ore constitutes about 53% of the total India. The other items that have potentials are marine products, oil seeds, salt, inorganic chemicals, plastic, rubber, optical and medical equipment, and dairy products. Not only this, great potential exists in areas like biotechnology, IT and ITES, health, education, tourism, and the financial sector.

### **Review of the literature:**

Lin and Li (2002) examined contribution of the external sector to GDP growth to examine efficacy of export-led growth in China. They proposed a new methodology to estimate the direct and indirect contribution of exports to GDP growth. Their results indicate that a 10 per cent increase in export growth would lead to 1 per cent growth in GDP in the 1990s.

Love and Chandra (2005) examined the hypothesis of an export-led growth hypothesis for Bangladesh. The findings



suggest that the direction of both long- and short-term causality is from income to export and therefore country inward trade strategy of development discriminated against export.

In the case of China, a study by Tang and Selvanathan (2008) suggested that FDI had not only compensated a shortage of capital but also induced high economic growth through domestic investment. Therefore, FDI encouraged the relevance of the DDLG strategy in China.

In a recent paper, Mohanty (2012a) examined the possibility of maintaining a sustained high growth performance in India while simultaneously pursuing both ELG and DDLG strategies. Since India falls in the Low Middle Income Country Group; it has a large number of products with export competitiveness globally. Time Series analysis with theVECM model reveals that both strategies have a significant long-term relationship with income. If India's medium-term

growth performance were sustainable, India's trade integration with ASEAN would be strengthened with either ELG or by a combination of both strategies. India's interest could be to pursue both strategies alternatively to maintain sustained high growth until its export competitiveness is fully realised.

IMF (2012c), country's international reserves build-up went up from \$615billion in 2004 to \$3.2 trillion at the end of 2012. Surging of Chinese international reserves over a period has been construed as the key reason for the continuation of the recent episode of global imbalance. China has been experiencing current account surplus (CAS) since the early 1990s, even during the period of 'Asian financial crisis in the mid-1990s. The nature of current account

surplus has undergone radical change over the years. As a percentage of GDP, CAS reached its peak of 10 percent in 2007, and started declining

#### **Objective:**

The main objective of this research is to know what are the items of Indian exports to China, similarly the Chinese exports to India, the Indian IT exports to China, and to know the recent developments regarding Imports from China.

#### **Database and methodology:**

The study is purely based on secondary data the sample observations are 11 years. The reference period of the study is from 2004 to 2014. The required information was obtained from various news papers mainly from THE HINDU, and information also gathered from internet.

#### **Findings:**

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. Infact, India and China are the two Countries and fastest growing major economies in the world. The resultant growth in China and India's international diplomatic and economic influence has also increased the significance of their bilateral relationship.

#### **India's trade with china:**

India and China are two of the world's oldest civilisations and have co-existed in peace for millennia. Cultural and economic relations between China and India date back to ancient times. The Silk



Road not only served as a major trade route between India and China, but is also credited for facilitating the spread of Buddhism from India to East Asia. During the 19th century, China's growing opium trade with the British Raj triggered the First and Second Opium Wars. During World War II, India and China played a crucial role in halting the progress of Imperial Japan.

Relations between contemporary China and India have been characterised by border disputes, resulting in three major military conflicts — the Indo – China War of 1962, the Chola incident in 1967, and the 1987 Indo – China Skirmish. However, since the late 1980s, both countries have successfully attempted to reignite diplomatic and economic ties. In 2008, China emerged as India's largest trading partner and the two countries have also attempted to extend their strategic and military relations.

Despite growing economic and strategic ties, there are several hurdles for India and the PRC to overcome in order to establish favourable relations. Though bilateral trade has continuously grown, India faces massive trade imbalance heavily in favour of China. The two countries have failed to resolve their long-standing border dispute and Indian media outlets have repeatedly reported Chinese military incursions into Indian territory. Both nations have steadily established heavy military infrastructure along border areas. Additionally, India remains wary about China's strong strategic bilateral relations with Pakistan. While China has expressed concerns about Indian military and economic activities in the disputed South China Sea.

In June 2012, China stated its position that "Sino-Indian ties" could be the most "important bilateral partnership of the century". That month Wen Jiabao, the Premier of China and Manmohan Singh, the Prime Minister of India set a goal to increase bilateral trade between the two countries to US\$100 billion by 2015. In November 2012, the bilateral trade was estimated to be \$73.9 billion.

In April 2011, during the BRICS Summit in Sanya Hainan, China the two countries agreed to restore defence co-operation and China had hinted that it may reverse its policy of administering stapled visas to residents of Jammu and Kashmir. This practice was later stopped, and as a result, defence ties were resumed between the two nations and joint military drills were expected.

It was reported in February 2012 that India will reach US\$100 billion trade with China by 2015. Bilateral trade between the two countries reached US\$73 billion in 2011, making China India's largest trade partner, but slipped to US\$66 billion in 2012.

In the 2012 BRICS Summit in New Delhi, India, Chinese President Hu Jintao told Indian Prime Minister Manmohan Singh that "it is China's unswerving policy to develop Sino-Indian friendship, deepen strategic cooperation and seek common development" and "China hopes to see a peaceful, prosperous and continually developing India and is committed to building more dynamic China-India relationship". Other topics were discussed, including border dispute problems and a unified BRICS central bank.

According to a 2013 BBC World Service Poll, 36% of Indians view China positively, with 27% expressing a



negative view, whereas 23% of Chinese people view India positively, with 45% expressing a negative view.

#### **India's exports to china:**

India's exports to China are an integral part of the bi-lateral trade relations between the two Asian countries, India and China. India's export to China focuses on mainly primary products. In 1984, India and China signed a trade agreement, providing for Most Favoured Nation treatment, to foster greater cooperation between each other. Moreover, the year 2006 was celebrated as Friendship Year between India and China.

#### **Items of India's exports to china:**

The principal items of Indian Exports to China comprise of 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.

At present, iron ore constitutes about 53% of the total India. The other items that have potentials are marine products, oil seeds, salt, inorganic chemicals, plastic, rubber, optical and medical equipment, and dairy products. Not only this, great potential exists in areas like biotechnology, IT and ITES, health, education, tourism, and the financial sector - all of which will contribute to the services and knowledge based sectors.

The need is to shift the focus from primary exports to the export of diverse range of high value added products, including -

- Auto engine components and automobiles

- Organic and inorganic products
- Pharmaceuticals
- Metal and metal based products like alloy steel bars and rods
- Agricultural products like grains, tobacco and oilseeds
- Engineering goods like diesel engines and compressors
- Marine foods
- Fresh and processed fruits and vegetables
- Medical and optical diagnostic equipment and laboratory equipment
- Consumer durables
- Textile yarns

#### **China's exports to India:**

China's Exports to India focuses on resource based exports as well as the exports of manufactured products. China has emerged as a global manufacturing center and India as the most lucrative market in the world.

In 2004, the China's exports to India stood at US\$ 5926.67 million. However, it industrialists in India were not in favor of China being given free access to the domestic markets. But bi-lateral trade relations between China and India have increased over the years, reaching US\$18.7 billion in 2005 from US\$ 4.8 billion in 2002. However, the bilateral trade is to be increased further to US\$ 20 billion by 2008 and further to US\$30 billion by 2010.

#### **Items of china's exports to India:**

The main items to be exported from China to India are electrical machinery and equipment, organic chemicals, nuclear reactors, boilers, machinery, silk,



mineral fuels, and oils. Value added items also dominate Chinese exports to India, like machinery, especially electrical machinery, which forms about 36% of Chinese Exports to India

**Indian it exports to china:**

Indian IT Exports to China is an integral part of the total Indian exports to china, with the bilateral trade between the two countries amounting to US \$ 11.3 billion during the year 2005 which under joint efforts is to be increased to US\$ 20 billion or higher by the year 2008. The bilateral trade have significant growth potential in areas like IT and ITES.

Regarding the Indian IT exports to China, the recent laws of china on restricting the foreign software companies selling software in China has been a setback for Indian software companies. The cordial bilateral trade relations however will soon ease out such tensions and there is a great possibility that Indian software companies will be allowed to sell software services to Chinese companies.

Indian IT exports to China has become a new bridge between the two countries facilitating the growth of bilateral trade and co-operation between the two countries. Not only software products, the Indian software companies also export IT- based know-hows to the Chinese software companies.

Chinese officials and executives of almost all major Chinese software companies travel to the Silicon Valley of India or the city of Bangalore in order to learn the essence of India's software industry.

Many Indian software firms under the Confederation of Indian Industries signed a Memorandum of Understanding with the Shanghai-Pudong Software Park of china to promote Indian and Chinese co-operation in software. Moreover in order to accelerate the Indian IT Exports to China, many Indian software firms have moved into the park.

Some of the major Indian software houses like NIIT, Mphasis, Infosys, Satyam, and Tata Consultancy Services have been outsourcing in China. They on one hand in an advantageous position due to their superior traditional skills in terms of management compared to the weaknesses of Chinese developers. Moreover with the help of the local and language-specific expertise of Chinese professionals, the Indian firms can capture the Chinese domestic market as well as other ones in the Far East Asian countries. Moreover the conducive conditions of china like the upcoming opportunities in China, her economic growth, political stability, and human resources makes China an ideal place for establishing a second global delivery center for Indian software firms.



**Table: Comparison Of Countries**

	<b>INDIA</b>	<b>CHINA</b>
Population	1,210,193,422	1,339,724,852 (2010 Census)
Area	3,287,240 km <sup>2</sup> (1,269,210 sq mi)	9,640,821 km <sup>2</sup> (3,704,427 sq mi)
Density of Population	382/km <sup>2</sup> (922/sq mi)	139.6/km <sup>2</sup> (363.3/sq mi)
GDP Nominal 2014	US\$2.04 trillion	US\$10.35 trillion
GDP Per Capita 2014	US\$1,625	US\$7,764
GDP (PPP)2014	US\$7.27 trillion	US\$17.43 trillion
GDP(PPP)Per capita 2014	US\$5,777	US\$12,307
HDI	0.586 Medium	0.719 High
FOREX Reserves	319,390 (millions of USD)	4,009,553 (millions of USD)
Military Expenditure	US\$45.785 billion (2.5% of GDP)	US\$166.107 billion (2012) (2.0% of GDP)
Manpower	Active troops: 1,325,000 (2,142,821 reserve personnel)	Active troops: approximately 2,285,000 (800,000 reserve personnel)

**Recent Development Regarding Chinese Exports to India:**

- In the beginning, Chinese firms were keen on exporting cheap electronic items, garments, and toys to the Indian markets. But recently, Chinese exporters have been focusing on the cement market. Two Chinese cement companies, Yingde Dragon Mountain Cement Company Ltd. and Longkou Fanlin Cement Company have been authorized to sell cement in Indian market. The reasons behind the sudden interest of the Chinese cement companies in penetrating the Indian market are that China is the world's largest cement producer and that the per capita cement consumption is

relatively low in India - around 150 kilogram per annum, less than one-third of China's per capita consumption, as in 2006. An Ahmadabad-based textile company is acting as the local agent of the Chinese Firms in India.

- The prospects of the Chinese exports to India have been enhanced from 2006, with the opening prospective of the Indo China border trade. Trade has been initiated between Tibet, an autonomous region of China, and India through Nathu La Pass, reopened after 44 years. From then onwards, nearly 15 items are being exported from China to India. China's exports to India focuses on resource based exports as well as the



exports of manufactured products. China has emerged as a global manufacturing center and India as the most lucrative market in the world.

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domestic markets. But bi-lateral trade relations between China and India have increased over the years, reaching US\$18.7 billion in 2005 from US\$ 4.8 billion in 2002. However, the bilateral trade is to be increased further to US\$ 20 billion by 2008 and further to US\$30 billion by 2010.

### India's Trade Agreement with China During 2007-2013

In Million Dollars.

YEAR	EXPORTS	IMPORTS	TOTAL	DEFICI
2007-08	10871	27146	38017	16275
2008-09	9354	32497	41851	23143
2009-10	11618	30824	42442	19206
2010-11	15483	43480	58963	27997
2011-12	18077	57518	75595	39441
2012-13	13520	54300	67820	40780

Source: Ministry of Indian Commerce and Industry

### References

**Kumuran, (2005)** , Examined some of India's antidumping issues.

**IMF, 2012** , China achieved a growth rate of 14.2 per cent in 2007 before it declined to 9.6 per cent in 2008 due to the global financial crisis towards the last quarter of the year.

**ADB (2012)**, Has predicted that China is likely to grow at a rate of 7.4 , Percent in 2012 and corresponding prediction for the ESCAP 2012 is 9.2 percent in 2011.The overall growth rate of China is predicted to decline in all these reports.