

INDIA-CHINA BILATERAL TRADE: CHALLENGES AND PATH AHEAD

AMAN MISHRA¹

Abstract: *Bilateral trade between India and china have expended substantially in recent years. This paper is an attempt to examine and compare bilateral trade between the two economies and to draw implications for trade and economies cooperation between India and china in future. The paper also deals with the major trends and changes in the India's balance of trade with China; in total import or export to china. The study analyse reasons behind the unfavorable trade and also mentions the way to overcome huge unbalanced trade. The findings are used to draw policy implications for future trade between the two emerging nations.*

Keywords: *Bilateral trade, Export and Import.*

Introduction

Today, China is India's largest trading partner, with a bilateral trade of \$71.5 billion. The total imports from China during the last fiscal year stood at \$61.3 billion against India's export to China worth \$10.2 billion. The trade deficit, which stood at \$37.2 billion a few years ago, now stands at a whopping \$51.1 billion. In terms of product structure, China's major exports to India are manufactured goods including mechanical and electrical products, chemical products, and base metals and related products. According to statistics from the Indian authorities, principal commodities of import from China during the year 2013-14 included electronic goods, machinery, organic chemicals, transport equipment and fertilizers. Chinese products find market in India on account of their competitive prices and growing domestic demand. On the other hand, China has a high import demand for raw materials and primary products as Chinese industries face a resource crunch on account of rapid industrialization and urbanization in China. Therefore, at present, India's exports to China mainly comprise raw materials, primary products and intermediate products mainly iron ore, copper, mineral, cotton etc. During the year 2013-14, export of nonferrous metals, cotton, iron ore and petroleum constituted nearly 50% of Indian exports to China.

Chinese exports to India are dominated by value-added products like mobile phones, toys, other engineering goods etc. India tries to protect its domestic industries through restriction on the import of Chinese goods but there is possibility that it can hit Indian industries even harder because, as India imports over \$22 million in cheap electronics and information technology products for its own electronics and power sectors. The Indian government is exploring the possibility of restricting the import of electronics and information technology products from China. Ostensibly, the reason is to bolster security and prevent data leakages. Issues of anti dumping duties are also very common for both countries. Recently more than 93 Chinese products has been imposed anti-dumping duties include steel and other metals, fibers and yarn, rubber or plastic, electronics, and consumer goods by India. The logic behind imposing anti-dumping duties is mainly to protect domestic industries, as they are not able to match the price of cheap Chinese products. Anti-dumping duties aim to create a level playing field for Indian manufacturers. One of the main reasons for this unfavorable trade balance is that India exports only raw materials like iron ore and copper to China. The deficit can be reduced only when India starts exporting value-added products. Unfortunately, the Indian manufacturing industries have to go a long way before they are geared up to export value-added products to China.

India is one of the largest manufacturers of generic drugs. But it has not been able to export to China because of Beijing's protectionist policies. While Indian pharmaceutical companies exporting generic drugs to the United States and Europe, as most of the drugs have received FDA and EU approval, it is quite striking that China does not allow imports of drugs from India. Despite minister's "Make in India" initiative, India is finding it difficult to increase its manufacturing capabilities in a short time span. Until India is able to create a sound manufacturing base, it should refrain from imposing any unreasonable restrictions on Chinese goods, as it would stand to suffer more than China. It must be mentioned here that the Chinese exports to India account for only two percent of its overall exports. In case of any boycott of Chinese products, it is the Indian manufacturing companies that will be hit the most.

Current Figures of Bilateral Trade

Trade in Services (for November, 2017, as per the RBI Press Release dated 15th January 2018)
Exports during November 2017 were registering a positive growth of 8.76 per cent in dollar during the same period Imports had a positive growth of 10.89 per cent in dollar.

Trade Balance

The Merchandise trade deficit for December 2017 was estimated at US \$ 14880.19 million as against the deficit of US \$ 10545.99 million during December 2016. In Services as per RBI's Press Release dated 15th January 2018, the trade balance was estimated at US \$ 5,745 million. The overall trade deficit for April-December 2017-18 is estimated at US \$ 70063.05 million as compared to US \$ 35626.18 million during April-December 2016-17.

Trade in Merchandise

Exports (including re-exports) during December 2017 have shown upward trend with 12.36 per cent in dollar terms vis-à-vis December 2016. It valued at US \$ 27030.27 million as compared to US \$ 24056.48 million during December, 2016. Major commodity groups of exports of last year are Engineering Goods (25.32%), Petroleum Products (25.15%), Gems & Jewellery (2.38%), Organic & Inorganic Chemicals (31.36%), and

Drugs & Pharmaceuticals (6.95%). Imports for the same period have shown rise of 21.12 per cent in Dollar terms. Major commodity groups of import have shown high growth for the last year.

Objective of the Study

- To know the reasons of unfavorable bilateral trade for India.
- To suggest measures to overcome the trade deficit problem.

Reasons behind the Unfavorable Trade

As per the various literature I would like to mention some reasons affecting the balance of trade India and China. The first and foremost point is the protectionist policy of china that hinder Indian companies from penetrating the Chinese market. For example, India is very strong in three key sectors – pharmaceuticals, agriculture and IT services – but Chinese regulations impose restrictions that stifle the provision of Indian goods and services. The second major issue is related with the export items of both countries. Since India is not so efficient in manufacturing hence compel to export raw materials example, Metal Ores, cotton, mineral fuels et cetera. Unlike India, china is a leading country in manufacturing sector. China has better marketing strategies and act according to the market demand. They target every sector which have potential to yield most. In the 12th Plan alone, almost 30% of the generating capacity was imported from China. In the rapidly growing solar energy sector, between April 2016 and January 2017, solar equipment from China had a share of 87% in a market pegged at \$1.9 billion. other important point is the availability of fund to boost the entrepreneurship sentiments in the country which will futher lead to the production and the gross domestic product of the country. China has edge in this regard as it has huge amount of forex reserve which caters the daily needs of production houses. On the other hand India is suffering with scarcity of capital that prevents rapid growth in big corporate houses who can compete at international markets.

To drag India from this vicious cycle of unfavorable trade with china, it is necessary to build a robust banking sector with the proper support of government in order to fulfill the needs of growing startups in this reference the startup India scheme of government is a good move. Apart from this the most striking needs for better competition in international market is to create an environment of research and development. Even the existing big corporate houses of India provides very meager sum for the same. recently the GOI has announced 70 -80 thousand rupees per months for research scholars of the country for some specific institutes which could be consider as the path breaking move in this direction. This will also overcome the problem of brain drain associated with india for a long period. All this initiatives will boost positive sentiments for the existing as well as the coming entrepreneurs to manufacture products at the standards of international levels and also give them stiff competition on their own way.

Methodology

The study is based on secondary data analysis. It is collected from DGCI&S, website of ministry of commerce and WTO. The study of paper analysed through trend analysis, average annual growth rate and percentage.

The following table 1 shows the china's share in India's total export declines considerably from 6.55% in 2005-06 to 3.88% in 2016-17 with a single significant upward move from 2008-09 to 2009-10 showing a rise of about 1.5%. So far as the import pattern is considered china's share in India's total import has a rising trend. Its share increases more than double in between the study period from 7.28% to 15.94%. The difference between the import and export gives the information about the trade deficit which is considered as the key tool for deciding favourable trade between the two nations. Considering the positive figures in trade deficit column we can confirm for the unbalanced trade for India. The unfavorable trend for India with china is rising continuous with the whole study period except for the year 2008-09 to 2009-10 which shows a decline in absolute amount along with a positive trade deficit. The tabaled data also figures out the increasing trend in trade deficit between the two countries is diminishing which has a good sign for india and it can boost domestic countries to do better in upcoming years.

Table-1: Trade Statistics between India and China

Values In Million USD

YEAR	TOTAL EXPORT	TOTAL IMPORT	IMPORT FROM CHINA (M)	EXPORT TO CHINA (X)	TRADE DEFICIT (M-X)	CHINA'S SHARE IN INDIA'S TOTAL EXPORT (%)	CHINA'S SHARE IN INDIA'S TOTAL IMPORT (%)
2005-06	103090.5	149165.7	10868	6759.1	4108.9	6.55	7.28
2006-07	126414	185735.2	17475	8321.9	9153.1	6.58	9.40
2007-08	163132.2	251654	27146.4	10871.3	16275.1	6.66	10.78
2008-09	185295.3	303696.3	32497	9353.5	23143.5	5.04	10.70
2009-10	178751.4	288372.9	30824	11617.9	19206.1	6.49	10.68
2010-11	249815.5	369769.1	43479.8	14168.9	29310.9	5.67	11.75
2011-12	305963.9	489319.5	55313.6	18076.5	37237.6	5.90	11.30
2012-13	300400.6	490736.6	52248.3	13534.9	38713.4	4.50	10.64
2013-14	314405.3	456199.8	51054.6	14824.4	36230.6	4.71	11.33
2014-15	310338.5	448033.4	60413.2	11934.2	48479	3.84	13.48
2015-16	262290.1	381006.6	61706.8	9010.3	52696.5	3.43	16.19
2016-17	275851.7	384355.6	61281.6	10171.2	51110.6	3.68	15.94

Source: author's compilation from Export-Import Data Bank, Department of Commerce, GOI.

Figure 1 : Showing India's Total Export to and Import from China



Source : Author's Calculation

Figure 1: the above figure shows trade pattern between the china and india. It shows total trade as it incorporates the india's total export to china and india's total import to china which has a huge gap in between resulting into trade deficit of india which stood 4108.9 million US Dollar in 2005-06. It rises 123% by the end of 2006-07. Soon the rise in growth of trade deficit was checked by the various government initiatives which resulted into the decline in the rising trend of trade deficit. This will helpful to cater the problem of unfavorable balance of trade that can further encourage domestic export industries to do well and finally move Indian economy in a higher growth path and create more employment opportunities in order to realize the potential of demographic dividend in productive way.

The Way Forward

There is need for a comprehensive strategy to deal with China, because in many ways China operates as a system when dealing with other countries. Unlike china Indian government is mostly work in regulatory mode and does not interfere with rules of competition through crony capitalism. Thus, India lags behind in government-industry cooperation, while compared to China, which shows better coordination between their government and industry as a whole. To deal with this India should also work to make its domestic industries more competitive with special focus on public enterprises. It needed to build an army of skilled labour and create sufficient amount of organized employment to boost the economy.

China's growing economy has witnessed an increase in labour cost in recent times. So, China is continuously looking for cheap labour places for business. In India, the labour cost is relatively lower than in China India could take its advantage to develop a robust manufacturing sector which can compete at the world level. According to the IIFT report, if India could capture ten per cent of the Chinese market, the spill-over effects in terms of specialization and economies of scale would result in the faster growth and development of Indian exports to China, especially in pharmaceuticals and medical instruments. The pharmaceutical sector has huge business potential for both countries. India is a large importer of pharmaceutical ingredients and intermediates from China. Indian firms specialize in formula development and finished dosages. Finally, Indian governments should have to work to make the best use of India's comparative advantages with China in order to tap into the under-exploited Chinese market.

Conclusion

Sustainability of trade depends on the composition of trade and prevailing business environment. If trade is hampering the growth of domestic production and creating non required dependencies of foreign products, it can possibly be considered unsustainable. The trade with China has to be studied in this context, where the constituents of trade have to be evaluated based on the effect of their import on the Indian market. If there are evidences where the kind of imports are majorly manufactured goods with competing products being produced domestically, then definitely, some measures to boost local production and consumption can be initiated by the government through appropriate policy changes. But, if the imports are primarily in terms of raw materials or machinery to boost local production, then it becomes unavoidable imports and hence, the imports can only be facilitated. According to annual trade data of the Government of India (GOI), major imports from China comprise of mechanical and electrical machinery and their parts, and organic chemicals. India's major exports are cotton, copper and iron ore are its total exports to China. Thus in order to bridge the trade deficit with China, India has to diversify its export basket to establish sustainable trade with China. Moreover, both the countries should work to improve their trade relationship and build trust. This would help them to lead the world economy on their own way.

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