



India-China trade relations: An overview

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Abstract

China - India trade relations are the most important part of bilateral relations between India and China. From a temporary decline in the influx of Chinese imports in the Indian markets, the scenario seems to have changed - India is enjoying a positive balance of trade with China. The China-India trade relations are regulated by the India-China Joint Business Council, which ensures a free exchange of products and services between the two countries. India and China signed a Trade Agreement in 1984 which provided for Most Favoured Nation Treatment and later in 1994, the two countries signed an agreement to avoid double taxation. Indian exports to China are ores, ash, iron and organic chemicals, etc. Chinese exports to India are electrical machinery and equipment, nuclear reactors and oils, etc. Booming bilateral trade has come to be the strongest pillar of India-China rapprochement. 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. It remains India's largest import source and its third-largest export destination. Both countries signed an agreement in September 2014 to achieve bilateral trade balance by 2019.

Keywords: trade relations, bilateral trade, JBC, MFN, rapprochement, competition, etc.

Introduction

Trade between China and India, the world's two most populous countries, have expanded substantially in recent years. They are the fastest growing economies in Asia as well as in the world scenario. Both economies are classified by international agencies as emerging markets with potential for rapid economy growth. They play an increasingly dominant role in world economy affair. India and China today represents Asia's two largest and most dynamic economies which are emerging as new trend setters in international relations. The history of bilateral relations between China and India dates back to mid-1980s. 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. India and China entered into a Trade Agreement, which provided them with the status of Most Favoured 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 ^[1].

India and China are the two most important countries in the world and they are also rapidly becoming the leading powers in economic terms. Although the two countries have many common features, their recent economic takeoff differs in timing, intensity and key characteristics of the development processes. In a long-run perspective both countries have benefited from opening up to international trade and foreign relations, although they initiated liberalization policies only when their domestic economies were sufficiently strong to face foreign competition ^[2].

India's Exports to China

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 ^[3]. Great potential also exists in areas like biotechnology, IT and ITES, health, education, tourism, and financial sector.

India's Imports from China

The main items that comprise Chinese exports to India are electrical machinery and equipment, cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils ^[4]. 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.

Trade Deficit of India and China

India had unfavourable 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's

most balanced trade in South Asia. India's trade deficit with China is expanding. In the short term, that's hard to resolve. 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's 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. That's the reason behind India's increasing trade deficit with China. The trade imbalance is rooted in India's trade structure. India's trade deficit with China will not be reversed in the foreseeable future ^[5].

Trade Relationship between India and China

India and China trade relationship is comparatively stronger in terms of imports and exports among the other countries. India enjoys a positive balance of trade with China. China mainly exported machinery and equipment, electric and electronic products, products of the chemical or allied 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 ^[6]. The major imported products of China from India included mineral products, base metals and articles of base metal, products of the chemical or allied 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.

In contrast, there is much more implicit or explicit government intervention in China's imports from India; there is an element of government signalling to the socialist/public sector part of the economy. These signals have apparently turned positive over the past few years. This is probably also the reason for the closing of the gap between the import and export shares that had opened up in the middle of the period. So perhaps the positive signals from the Chinese Government have been partly responsible for this growth in trade ^[7]. The possibilities for trade and economic cooperation between China and India will therefore continue to expand. Another area of economic cooperation that is very important for the future of Asia is that Indian and Chinese economic cooperation be embedded in an Asian context.

Economic ties between China and India will play a large role in one of the most important bilateral relationships in the world by 2020 ^[8]. As neighbours and two of the world's oldest civilizations, China and India have shared a long history of Cultural, Scientific and Economic linkages. Recent developments, however, suggest that bilateral FDI will likely see a sharp upswing over the next five years. Investment is rapidly entering a broader range of sectors, encompassing high-tech and low-tech industries, and leading companies in both countries have their sights set on global expansion.

Trends in India - China Trade Ties

China and India today represent Asia's two largest and most dynamic societies which are emerging as new trend setters in

international relations. According to World Bank estimates, and assessed on the basis of purchasing power parity, China and India have already become respectively the second and fourth largest economies of the world surpassing developed countries. 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.

China's trade with India have witnessed impressive increases defying all suspicions about China's special relationship with Pakistan or China's encirclement of India in the context of South Asia ^[9]. To highlight some other strong fundamentals that promise to sustain their current trade boom, it is only the India - China trade that has remained to be China's most balanced trade in South Asia and often the balance has been in favour of India.

Trade Investments between India and China

In international relations, finance capital transfers have been a rather recent phenomenon compared to the trading of goods and services. But mutual investments always reflect greater mutual confidence and provide a great boost to bilateral trade, especially in the long-run. And this is especially true when it comes to China-India bilateral trade.

However, as of now, the United States stands out as the largest investor, accounting for about 21% of India's total FDI inflows ^[10]. Mauritius follows with a 12% share, but it is really a conduit for investors from various countries, including the United States, because of a special tax treaty with India which grants exemption from Indian taxes for Mauritius-based companies. The United Kingdom is then the third largest investor in India followed by the Republic of Korea, Japan and the non-resident Indians who now account for about 4% of India's total FDI inflows.

Conclusion

Trade between India and China is increasing year by year, and the demand for each other's products is increasing in both the countries and producers and consumers in both the countries are getting more access to the products of the other country. Since both the countries are developing their infrastructure very fast it can be recommended to India to capitalize on the growing demand of construction industry in China for products like iron ore, slag, ash, plastic and linoleum ^[11]. China is also emerging as a big importer of aluminium, especially for its communication and transport infrastructure. India can get a huge chance here to export a lot of raw material and final goods related to construction. And also the restructuring of China's textile sector could result in new opportunities for India to increase the exports of cotton yarn and fabrics to China.

The nature of both the economies changed from an in-ward looking economies to an out-working looking. China had the lead in this opening up, because they had realized this fact few years earlier than India. Once they started having trade with the rest of the world, neighbours of China took it as a challenge for them and started thinking in this area. Just after around ten years India also opened its economy to the world and attracted a lot of foreign money into the country and trade

volume of India started increasing. They are competitors in the International Market and in Asian markets as well and the relation between the two will always be of rivalry ^[12]. But I believe that although they are competitors in few fields in the international market, they have a lot of potential for enhancing their bilateral economic ties. Their bilateral trade relation is proved to be useful for both the nations. India is going to be the biggest trade partner of China.

India - China relations is important for the whole world, if they make agreements and come together in the international market as a producer of the commodities which are mostly being produced by the developed nations, they can be a strong competitors with the developed nations. And they have potential to make many more examples of their ties in African oil producing agreement ^[13]. There is no doubt that the political relations are important for them and it plays a role to strengthen their economic relations but this is not only the political relations, which decides their trade relations, there are other determinants to the bilateral trade. If those commodities are not traded with each other, they will find it difficult to sell it anywhere else in the international market.

In fact, the two Asian countries are helping to pull the world out of recession through their imports, despite persisting imbalances in specific trade relations ^[14]. India and China share some key common elements: geographically, they share the same continent and are separated by a common border; demographically, they are “giants”, with populations exceeding one billion; historically, the two countries have a rich and long history, making them world leaders from the 19th Century.

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