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E: ISSN NO.: 2455-0817 Remarking An Analisation

An Analysis of Export-Import Relation between Indo-China Trade

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Abstract

India and China are two big Asian giants which are the centre of the demand for the world economies. Indian foreign trade has made cumulative progress both qualitatively and quantitatively after the independence of India and more particularly after the trade liberalization. India's share in the total world merchandise exports after remaining unchanged at 0.8 percent between 2003 and 2004 has increased to 1.0 percent in 2005 and increased to 1.3 percent in 2009. The data reveals that India's trade links have increased with all the regions of the world. In view of the current position, India has taken major initiatives to diversify its exports as also their destinations. India exports over 7500 commodities to around 190 countries of the world. The Direction of trade too is undergoing a strategic change. The percentage share of trade of USA, UK and other western countries is decreasing, while that of China, Singapore and Hong Kong is increasing.

Keywords: India, China, Economy, Export-Import, GDP Growth

Introduction

India and China are the two emerging giants of the developing nations in Asia having 37 percent of the world population[1]and each having 9 percent Growth rate in their respective GDP of their economies[2]. Both India and China got their independence in late forties. India, however tasted the freedom two years earlier than china in 1947. Considering the various economic development indicators, it could be said that China has surged far ahead of India. Both these countries are expanding in the world economy and can be seen as "Asian Drivers" – but with different trade patterns and impacts. According to the apex industrial bodies of the two countries viz. Confederation of Indian Industries (CII) and the China Council for the Promotion of International Trade (CCPIT), with the present rate of growth, the bilateral trade between China and India, which accounts for 1 percent of the two countries global trade is expected to touch $ 100 billion by 2015.

International trade is defined as the exchange of capital, goods, and services across international borders or territories. Production of goods and services require resources. No country can produce all the goods and services that it requires for its domestic consumption because every country has limited resources. Without international trade, nations would be limited to the goods and services produced within their own borders. International trade has got an important place in the economic development of a country. International trade helps to produce those commodities which have a comparative cheaper cost than others. It results in less cost of production in producing a commodity. If all the countries adopt this procedure to produce these goods in. which they have less comparative cost, it will lead to availability of goods at a lower price. International trade increases the scope of market because of domestic demand and foreign demand for the product. So there is mass production. If the production of goods increases, average cost declines resulting in the decline of price of goods. International trade helps the people to get different varieties of goods both in quantitative and qualitative terms.

Aim of Study

Enlightenment and acquisition of knowledge to make the world a better place to live in.

Indo-China Economic Relations

The history of Indo-China trade in South-East Asia goes many centuries back and the ancient term for it was Nanhai trade. The exchange of goods and ideas between China and South-East Asia had already taken place before the European arrival in the 16th century. The Chinese trade and its lucrative returns provided the settings for rulers, explorers and bureaucrats to pit themselves against one another, or collude among themselves, to gain dominance and wealth in the Malay Archipelago In 1945, after Japanese capitulation the civil war broke out which ended in 1949 by creation of People's Republic of China headed by Mao Zedong. The period of Mao's rule was that of experiments in economy, agriculture and social life. After his death, Den Siapong became the leader of communist Party of China. China started developing with programme of "four modernization" i.e. industry, agriculture, science and defense. In 1989, during dispersion of student's demonstrations troops were involved, hundreds of people died and thousands were arrested. Zhao Tziang was removed from governing. Since 1994, when the official use of money exchange was abolished, China's economy started developing intensively. Indian Prime Minister's visit to china in December 1988 is considered as a turning point not only in political relations, but on economic and trade front too. The two sides issued a joint statement which not only stressed the need to restore friendly relations on the basis of "Panch Shila - an embodiment of Five principles of Peace, Cooperation and Co-existence," viz. Mutual respect for each other's territorial integrity and sovereignty, Mutual non-aggression against anyone, Mutual non-interference in each other's internal affairs and Equality and mutual benefit and Peaceful co-existence, but agreed to broaden ties in various areas, working to achieve a reasonable and fair settlement while seeking a mutual acceptable solution to the border dispute.

Need and Importance of The Study

According to the 2009 figures, China and India accounting for a bout 19.6 and 17.31 percent of the total population of the world have been growing very rapidly since 1980. World Bank in 2005 reported that China's GDP grew at a very fast rate at an average rate of 10.3 percent per year during the last decade 1980-90. As compared to this, the growth rate for India was only 5.7 percent per annum during the same period. Of the five countries that grew faster than India, none did so subsequently in 1990-2003 period. In the later period, China's GDP grew faster at the rate of 9.6 percent per annum, while that of India grew at the rate of 5.9 percent. However in 2010, the GDP growth rate of China and India was pegged at 10.0 and 8,5 percent respectively placing the China and India at 1st and 4^{th} position respectively. In other words, the growth rate of India increased at a higher rate that that of China. Thus both these economies continue to grow rapidly, rather are working as the competitive economies. Both are heavily engaged in the global economy and possess nuclear powers with expanding military capabilities to match their growing ambitions. They are also having a long history of bitter rivalry and unresolved border dispute that erupted in war. Though they are competitors for power and influence in Asia, they also share common goals of maintaining regional stability i.e. combating the growing Islamic Fundamentalist menace, maintaining access to capital and markets and benefiting from the globalization of trade. Co-operation could allow them to balance United States of America's influence and increase their negotiating positions with the sole super power. It is in the light of this that the project has been taken up to study the history of trade between the two countries.

Though our policy as advocated by three of our reverend Prime Minister's was " LOOK EAST " and develop closer ties with our neighboring countries, but little special incentives or programmes have come forward to increase the trade with the countries like China unlike the trade with Latin countries or the SAARC countries through various "Exim Policies".. In spite of all this, the trade has continued to increase. According to Sridhar Bala Subramanian, a business professor at the University of North Carolina "The trade relations between the two countries have historically been tenuous at best. They have not been trading as often and as much as one would expect these two giants to trade. The markets have opened up right now to each other. There is a big influx of Chinese manufactured goods to the Indian markets usually consumer items like electric fans, batteries, children toys and such other items. India has also started making its presence in information technology markets felt within mainland China. China has grown and vowed to become the world's largest economy after U.S.A and even may surpass it. This is witnessed from the high growth rate of China, which again is attributed to the high levels of trade and greater investment effort. Looking into the whopping growth in the Sino-Indian trade, China outlined a five point agenda, including reducing trade barriers and enhancing multi lateral co-operation to boost bilateral trade. In the light of all this, it is very essential to analyse the growth of trade over time between the two countries.

Collection of Data

The data for the study would be collected from the various secondary sources. The year 1994 marked the beginning of new era in the China-India economic relations. In this year a Double Taxation Avoidance Agreement was signed between the two countries. The governments of both the countries also has the necessary initiative to turn into dialogue partners in the Association of Southeast Asian Nations (ASEAN). To follow up, it took some time to materialize the various trade agreements. Hence the data for the study was collected for the period 1997-98 to 2009-10.

It is worth mentioning that every country has its own resources, expertise and specialty, hence the priorities for the imports and exports too differ. Moreover the international trade depends upon various theories like the comparative cost theory, Comparative advantage theory and the opportunity cost theory. Hence the priorities for exports and imports too depend on these factors. Again every country has its own contacts and comparative advantage of producing, importing or exporting the particular goods. Hence for the study, the data was scanned and all the items exported from India to China or imported by India from China were taken into account.

Sources of Data

As already mentioned, that the data for the study was collected from the various secondary sources viz. published and unpublished reports pertaining to import and export of various products for the different reference periods. The data was also collected from various government departments and also various websites on the internet. Major sources of data and the various websites contacted for the purpose have been given below:

1. FAO website- www.fao.org
2. FAO Trade Year Book for the various years
3. Economic Survey Reports of various years- Government of India
4. Statistics of Foreign Trade in India : www.indiastat.com
5. Ministry of commerce and industries, government of India-Export Import Data Bank
6. Reserve Bank of India
7. DGCI&S Kolkata
8. India-China Trade Center
9. NSIC Technical Service Center
10. Other Published and Unpublished Reports of Govt. of India/China

Analysis of Data

The collected data was processed, tabulated and analysed as per the various objectives laid down for the study. Both the tabular Analysis and Statistical Analysis using the various quantitative techniques was used to arrive at the results of the study. The details of the Tabular Analysis and the Quantitative Techniques used are as under:

Tabular Analysis

All the items of Export and import were classified as per the "ITC HS CODE" and "India Harmonised System Product classification Codes". All the items classified into 21 sections and 98 Chapters have been presented.

India Vs China Economy

To study the India-China trade relationship, it is of utmost importance to study the economy of these two growing giants. There is no denying the fact that India and China rank among the front runners of global economy and are among the world's most diverse nations. Both the countries are among the most ancient civilizations and their economies are influenced by a number of social, political, economic and other factors. However, a comparison between the two economies could be possible only if an attempt to understand the various economic facts/features of the two economies is made in the right earnest. The various parameters for the comparison purpose have been presented in table 4.1 below:

It could be observed from the table that the geographical area of China is around 2.92 times to that of India, but the population is only 1.12 times showing that the man land ratio in India is higher than that of China. This could be further enunciated from the density of population of the two countries. The density of population of India is about 2.6 times to that of China. Even the capital of china-Beijing city has 3 percent more population than the capital of India, New Delhi city. Even, Shinghai city, which is the biggest city in China has 7 percent more population than Mumbai, which is the biggest business city in India. Even the density of population of the capital of China is 73 percent higher than the capital of India- Delhi. However, the density of population of Mumbai, which is the biggest city in India is around 44 percent higher than the city of Shinghai which is the biggest city in China, The major distinction among the two countries is the government system. China is governed by the Unitary Socialistic Republic System (one country, two systems), while in India, the system is Federal Parliamentary Constitutional Republic. Though in China, the official language is Chinese, while in India both Hindi and English are prevalent, but the official language is Hindi.

In other words, the availability of labor is very high in China and due to this reason, the labor is comparatively cheaper. This cheap labor helps in reducing the cost of production of various goods. Due to this factor, the cost of production is low, which has helped China to compete with other countries of the world and increase its exports. China because of the availability of cheap and abundant labor is producing large number of value added products which in addition to fulfilling the internal demand are being exported. Not only this, it is importing the raw materials from other countries and is exporting to other countries after processing these and earning the profits. China has huge industry and the absorption of labor is much higher as compared to the other developing countries of the world. Because of the more employment opportunities in China, the unemployment rate is very low (4.20 %). As compared to this, the rate of unemployment in India is much higher (9.4%), which is around 2.25 times to that of China. Fiscal deficit is the difference between total revenue and total expenditure of the government. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included. Generally fiscal deficit takes place due to either revenue deficit or a major hike in capital expenditure. Capital expenditure is incurred to create long-term assets such as factories, buildings and other development. A deficit is usually financed through borrowing from either the central bank of the country or raising money from capital markets by issuing different instruments like treasury bills and bonds etc. Fiscal deficit of China has been observed to be around 3.9 times to that of India. In other words, the Fiscal Deficit of China and India has been observed to be 21.5 percent and 5.5 percent respectively. Talking about the Foreign Direct Investment in India, India attracted foreign direct investment to the order of around $12.4 billion, while in China, the Foreign Direct Investment was found to be only $9.7 billion, which is around 22 percent lower. However Gold reserves in India were 15 percent as compared to China (11%). The Foreign Exchange Reserves for China were $2.65 trillion, while that for India were only $2.41 billion. World Prosperity Index is the assessment of wealth and well being; unlike other studies that rank countries by actual levels of wealth, life satisfaction or development, the Prosperity Index produces rankings based upon the very foundations of prosperity and those factors that help drive economic growth and produce happy citizens over the long term. The prosperity Index revealed that India's rank is 88, while that of China is 58th. This leads to conclude that China is at a much higher plateau as compared to India. Talking of some of the prosperity variables, it has been observed that the total number of mobile users in India is 842 million, while in China these are ascertained to be around 688 million. Similar the internet users in India are almost one a half times to that of China. In India the total number of internet users has been found to be 123.16 million, while in China these have been observed to be 81 million. The foregoing discussion leads to conclude that China's economy is better placed and is on a higher footing as compared to its counter part, the India.

Share of India's Export to China to World's Exports

India is exporting the goods/ merchandise to a large number of countries of the world. In other words several countries of the world are exporting the merchandise to China. Since in this study, we are mainly concerned with the trade with China, it is therefore very important to study the exports by various countries of the world to China and the share of India in this trade. The total Exports to China by the various countries of the world and the percentage share of India and along with the growth rates among various years and the compound growth rates during the study period have been presented in the table.

It could be observed from the table that in 1996-97, the exports to China by the entire world countries was found to be about 33470 million US$, while the India alone was exporting worth 615 million US$, which meant that the share of India alone was around 1.84 percent. A close review of the table revealed that the percentage growth of the exports of the entire world were around 4 percent in 1997-98 over 1996-97. As compared to this the percentage growth of exports by India to China were found to be about 17 percent. Percentage Growth in 1998-99 over 1997-98 was negative both for India and the entire world, however in case of India, this was more pronounced and was observed to be -4.5% in case of the entire world and -49.5 percent for India. After 1999-2000, the growth rates of India's exports were observed to be higher than the entire world. The trend analysis of the growth rates for India's exports from 1999-2000 to 2007-08 revealed that the growth rates were quite high and varied between 14.5 percent in 2001-02 to 107.5 percent in 2002-03. However, it was negative in 2008-09 (-14%), but in 2009-10, the exports increased and the growth rate was found to be 24.2 percent. It is interesting to observe that if during one year the growth rate was very high, in the following year, it came down and vice versa. The Overall Compound Growth Rate, however from 1996-97 to 2009-10 was found to be more than 33 percent. As compared to this, the trend analysis of world exports revealed that the percentage growth rate from 1999-2000 to 2007-08 was positive except for the year 2001-02 when it was negative and found to be – 1.7 percent and varied from 10.9 percent in 1999-2000 to 30.9 percent in 2004-05. It was however found to be negative both in 2008-09 and 2009-10. The overall Compound Growth Rate was found to be around 9.4 percent. Regarding the trend of percentage share of India in the export to china of the total world exports, the table did not reveal any specific trend, however it increased in 1997-98 over 19996-97. It decreased in 1in 1998-99, but from 1998-99, it showed an increasing trend and continued to increase up to

Table

Share of India's Export to China as Percentage to Total Exports (In US$ million)

Year	China	Total	% Share	1996-97	% Growth World
1997-98	717.95	32784 98	2.06	16.78	3.98
1998-99	427.16	33218.72	1.29	-49.50	-4.50
1999-2000	539.04	36822.49	1.46	26.19	10.85
2000-01	831.30	44560.29	1.87	54.22	21.08
2001-02	951.95	43826.72	2.17	14.51	-1.65
2002-03	1975.48	52719.43	3.75	107.52	20.29
2003-04	2955.08	63842.55	4.63	49.59	21.10
2004-05	5615.88	83535.94	6.73	90.04	30.85
2005-06	6759.1	103090.50	6.56	20.36	23.41
2006-07	8321.86	126414.10	6.58	23.12	22.62
2007-08	10871.34	163132.2	6.66	30.54	29.05
2008-09	9353.50	158295.40	5.05	-13.97	-2.96
2009-10	11617.88	178751.40	6.50	24.21	-3.53
C.G.R. %	33.35	9.36			

2004-05. But from 2004-05 onwards till 2009-10, the share remained stagnant and was found to be around 6.5percent with slight variations in between different years except for the year 2008-09, when it decreased to around 5 percent. It could therefore be concluded that India's export to China though in absolute terms is increasing, but in percentage terms to the total world's export to China has become almost stagnant.

Share of China in India's Imports to World's Imports

As discussed earlier, India is importing the various goods and merchandise from various countries of the world. Since the objective of the study is to study the relation of indo China trade, it would therefore be very pertinent and important to study the total imports by India from China, all the countries of the world and the percentage share of china in the world trade. Table given below presents the imports from China, the entire world, percentage share of China, percentage growth of imports from China and the world.

Table

Share of India's Imports from China as Percentage to Total imports (In US$ million)

Year	Imports from China	Total Imports	% Share	% Growth in imports from China	% Growth from World's imports
1997-98	112.05	298029	2.68	46.92	97.86
1998-99	1096.71	248953	2.27	-1.38	-16.47
1999-2000	1282.89	351511	2.74	16.98	41.20
2000-01	1502.20	432633	2.88	17.09	23.08
2001-02	2036.39	739210	3.63	35.56	70.86
2002-03	2792.04	2107960	7.55	37.11	185.16
2003-04	4053.21	2018394	4.98	45.17	-4.25
2004-05	7097.98	4294290	6.05	75.12	112.76
2005-06	10868.05	7738016	7.12	53.11	80.19
2006-07	17475.03	15325572	8.77	60.79	98.06
2007-08	27146.41	24187086	8.91	55.34	57.82
2008-09	32497.02	30807156	9.48	19.71	27.37
2009-10	30824.02	38745768	12.57	-5.15	25.77
C.G.R. %	39.60	60.70	15.11		

It could be observed from the table that the imports from China have increased from 112 million US$ in 1997-98 to 32497 million US$ in 2008-09, but decreased in 2009-10 to 30824 million US $ registering an increase of around 2672 percent. As compared to this the total imports from all the countries of the world increased from 298029 million US$ to 38745768 million US $ registering an increase of about 12901 percent, which is much above to that of imports from China. The compound Growth Rate (%) in the imports from China and the world was observed to be 39.6 and 60.7 percent respectively. The trends in the growth of percentage share of China to the total imports revealed in general the rising trend with a few exceptions. The percentage share increased from 2.68 percent in 1997-98 to 12.57 percent in 2009-10 with the exception of 1998-99, when it slightly decreased and the year 2002-03, when the increase during the year was higher. The Compound Growth Rate (%) in the percentage share of imports from China during the period was observed to be 15.11 percent. The trends in the percentage growth of imports from china revealed that the growth rate in the initial year was very high, but was negative in the subsequent year viz. 1998-99, thereafter the trend was the increasing trend at an increasing rate up to the year 2004-05, reduced in 2005- 06 and found to vary between 53 to 61 percent in the next three years, but was reduced to 19.7 percent in 2009-10. More or less similar observations were observed in case of percentage growth in the imports from world countries with a few exceptions here and there.

Trade Intensity Index

The relative importance of the trade between two countries could be studied by the trade intensity index, which determines whether the value of trade is greater or smaller than would be expected on the basis of their importance in the world trade. In simple words, it could be defined as the share of one country's exports going to a partner divided by the share of world's exports going to the partner. The value of index less than unity has been interpreted as indicating a bilateral export flow that is smaller than expected given the partner country's importance in the world trade. The data thus analysed has been presented in table 4.12 below:

It could be observed from the table that during 1997-98 to 2009-10, trade intensity index for India's Export to China varied between 0.45 to 0.99 percent except for the year 2005-06, when it was more than unity (1.19) . As compared to this, China's export intensity to India varied from 0.70 to 1.32 during the same period. It is worth noting that during all the years China's export intensity to India was higher than India's export intensity to China. It implies that China's export to India was much higher than expected given the India market's importance in world export. In other words, India's exports to China were lower than expected.

Table

Trade Intensity Index for China and India

Years	India's Export Intensity to China	China's Export Intensity to India
1996-97	0.55	0.73
1997-98	0.83	0.84
1998-99	0.50	0.70
1999-2000	0.51	0.83
2000-01	0.45	0.78
2001-02	0.57	0.88
2002-03	0.71	1.56
2003-04	0.83	0.89
2004-05	0.91	0.98
2005-06	1.19	1.01
2006-07	0.99	1.12
2007-08	0.94	1.04
2008-09	0.75	1.09
2009-10	0.88	1.32

SHARE IN TRADE OF TOP 25 COUNTRIES

India is exporting the various goods which are excess with it to different countries of the world and in exchange importing the various goods and merchandise not available with it or it is deficient. The data reveals that India is having trade relationship with various countries of the world, but more than 75 percent of the total trade, exports and imports are carried out with 25 countries. So as to analyse and work out the share of each country in the total trade (exports and imports combined together), the data pertaining to these 25 countries from the year 1997-98 to 2009-10 has been presented in tables.

SHARE OF INDIA'S EXPORT TO CHINA TO WORLD's EXPORTS

India is exporting the goods/ merchandise to a large number of countries of the world. In other words several countries of the world are exporting the merchandise to China. Since in this study, we are mainly concerned with the trade with China, it is therefore very important to study the exports by various countries of the world to China and the share of India in this trade. The total Exports to China by the various countries of the world and the percentage share of India and along with the growth rates among various years and the compound growth rates during the study period have been presented in table.

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It could be observed from the table that the imports from China have increased from 112 million US$ in 1997-98 to 32497 million US$ in 2008-09, but decreased in 2009-10 to 30824 million US $ registering an increase of around 2672 percent. As compared to this the total imports from all the countries of the world increased from 298029 million US$ to 38745768 million US $ registering an increase of about 12901 percent, which is much above to that of imports from China. The compound Growth Rate (%) in the imports from China and the world was observed to be 39.6 and 60.7 percent respectively. The trends in the growth of percentage share of China to the total imports revealed in general the rising trend with a few exceptions. The percentage share increased from 2.68 percent in 1997-98 to 12.57 percent in 2009-10 with the exception of 1998-99, when it slightly decreased and the year 2002-03, when the increase during the year was higher. The Compound Growth Rate (%) in the percentage share of imports from China during the period was observed to be 15.11 percent. The trends in the percentage growth of imports from china revealed that the growth rate in the initial year was very high, but was negative in the subsequent year viz. 1998-99, thereafter the trend was the increasing trend at an increasing rate up to the year 2004-05, reduced in 2005- 06 and found to vary between 53 to 61 percent in the next three years, but was reduced to 19.7 percent in 2009-10. More or less similar observations were observed in case of percentage growth in the imports from world countries with a few exceptions here and there.

Conclusion

India and China are the two emerging giants of the developing nations in Asia having 37 percent of the world population and each having 9 percent Growth rate in their respective GDP of their economies. Both India and China got their independence in late forties. India, however tasted the freedom two years earlier than china in 1947. Considering the various economic development indicators, it could be said that China has surged far ahead of India. Both these countries are expanding in the world economy and can be seen as "Asian Drivers" – but with different trade patterns and impacts. According to the apex industrial bodies of the two countries viz. Confederation of Indian Industries (CII) and the China Council for the Promotion of International Trade (CCPIT), with the present rate of growth, the bilateral trade between China and India, which accounts for 1 percent of the global trade is expected to touch $ 100 billion by 2015.

Looking at the data of exports, imports and total trade from 1997-98 to 2009-10, there is a huge scope of further growth in Indo-China trade. To work out the growth and predict the future prospects of trade both the Linear, and Non-Linear functions were fitted to the data. The scatter plot of the data reveals that there is an exponential growth of trade in the given time series. More over the coefficient of determination for linear regression equation was very low and varied between 80 to 85 percent strongly suggesting a non linear trend in the time series. The value of coefficient of determination for the total trade was observed to be around 97 percent while for the imports and exports it was observed to be around 96 and 95 percent respectively

It could be observed from the table that in the next decade i.e by 1919-20, the total trade between the total trade between the two countries will increase by about 215 percent or could touch the level of 187067 million US$. The trend of imports revealed that at the present rate of growth, the imports also would grow tremendously from 30834 million US$ in 2009-10 to 141051 million US$ in 2019-20. In other words the imports would increase by about 357 percent, which is much higher than the total trade or the exports. Hence, the problem of deficit of trade is strongly visualised, which India has to take care of. In short, India has to grow its exports to China, by exploring the various avenues, where the exports could be increased.

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Endnotes

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