

## **India - China Trade Relationship: The Surprising Facts**

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### **ABSTRACT**

*India and China are the fastest growing and emerging economies in the world started their bilateral trade relationship during 1950s. Both countries attained the recognition of international community for their role in international financial affairs and also these countries have some common elements like large territorial area, high population and separated by common border etc. The objective of the present study is to analyze the different aspects of India- China economic and trade relations. It focuses on the position of China as a trading partner to India and along with this, the study also try to understand the trend of India – China export, import and its composition. For this purpose, the data are collected from Directorate General of Commercial Intelligence & Statistics (DGCI&S) and Ministry of Commerce and Industry, Government of India and the analysis was done by using appropriate tables and graphs related to the collected trade data. The study found that china holds a critical position with India on its trade relations, both export and import terms. Both countries are engaging in the export and import of many commodities. The data reveals that China is the largest importer of our country. Our export to china is quite scanty as we compare this share with China's import. It is not a good sign to our economic development as the trade deficit is widening year by year. Constant attention is needed to reduce this deficit by expanding our export to China for the coming years. The mutual opening of banking and other business enterprises in both countries are appreciable as it can enhance our economic relationship.*

**Keywords:** Export, Import, Bilateral trade, Tariff, Quota, trade deficit.

### **INTRODUCTION:**

Majority of the modern nations opened their economy towards the rest of the world. Their existence will be questioned on the absence of foreign trade. So now a day international trade is an important matter to every country and their goal is to maximize their benefit from foreign trade. Some of them may incur profit at the cost of others and vice versa. Just like others, India is also maintaining its trade relation with the rest of the world. In this context it is an important question that who is the major trade partner of our country? What makes them in such a position? The commencement of the present study is with these questions. When we go through the relevant literature in relation with India – China trade relationship in Indian context, it reveals that such studies dealing with same subject matter are very limited and that is why this study is very relevant in nature.

The two giant economies in Asia namely India and China occupy some common elements like large territorial area, high population and separated by common border etc. By bilateral relationship we mean the exchange of

goods and services between two nations. Here they reduce or eliminate import quota, export quota, tariffs and other trade barriers to promote trade and investment between them.

The economic and cultural relations between China and India began in the ancient period itself. Even though these two countries have friendly relationship together, there exist some border disputes and ill-healthy economic competition between them. The economic relation between both countries occupies an important role in framing the strategic and cooperative partnership between these two countries.

The objective of the present study is to analyze the different aspects of India- China economic and trade relations. It focuses on the position of China as a trading partner to India and along with this, the study also try to understand the trend of India – China export, import and its composition.

## **DATA AND METHODOLOGY:**

For the study, the data are collected from Directorate General of Commercial Intelligence & Statistics (DGCI&S) and Ministry of Commerce and Industry, Government of India and for analyzing trade data, different tables and trend analysis were used.

## **REVIEW OF LITERATURE:**

When we go through the related literature, we can see that some experts are already conducted few studies in this area. They are the following:

Marelli and Signorelli (2011) studied the economic growth of India and China in terms of their trade relationship. They used a descriptive analysis of economic growth, features and trends of the two countries by considering trade and foreign direct investment data. The result shows that the trade relation between India and China is creating a positive growth effect in both countries.

Vaidya (2005) Investigated India's external trade relation particularly focused with the United States and China. It states that China has emerged as the world's third largest trading nation and an emerging competitor for the United States in many emerging markets, including India.

Bhattacharya and Bhattacharya (2007) studied the gains and losses of India- China trade relationship. For the analysis they used the elasticity estimation and the result of the study shows that in the short run, India's gain from the trade is relatively less compared to China because of its high tariffs but in the long run, India's gains are higher than China.

Wignaraja (2011) analyzed the link between economic reforms and exports in China and India. He tried to demonstrate how the economic reforms influenced the giant economies like India and China since 1970s. The study find out that after economic reforms India and China emerged as the Major players in the international trade within a short period of time. They are very successful in using medium or high technology products. China made challenge to US in manufacturing products and India proved its ability in information technology and business process out sourcing.

Singh (2014) conducted a comparative study of India - China bilateral trade to understand the implications for trade and economic co-operation between India and China in future. For this purpose he used secondary source data for the period of 2006-07 to 2012-13 and applied different statistical tools such as trend analysis, annual growth rate, percentage etc. for getting the result. The result of the study shows that the bilateral trade between these economies is unfavorable to India.

Hande and Kadm (2012) analyzed how the economic factors affect the relationship between India and China for the last three decades. And along with this they discussed the history of India and China to understand the recent changes in both economies. The study reveals that along with trade relationship and economic ties, both countries should maintain peace and stability in their relationship.

Ayyub (2012) studied the Indo- China trade relationship for the year 1995- 2005 by using "constant market share analysis". The study reveals that both India and China started trade relationship very late and now these bilateral trade benefits both countries and they also have potential to improve it in future.

Aravind kumar (2010) analyzed the India – China relationship for the last six decades and their future challenges for the 21<sup>st</sup> century. The study found that the economic cooperation between India and China increased in a greater extend and both countries emerged as the important economic powers in the world. And by maintaining these trade and economic relationship in future, both countries can make benefit in all spheres.

Chatterjee (2011) investigated the bilateral trade relationship between India, China and USA. The result shows that, the US is the dominant power in the trade relation between these nations and India and China are trying to get the maximum benefit from this strategic trade relationship.

### **An over view of India - China relationship: A discussion**

We know that India and China are the fastest growing economies in the world commenced their bilateral trade relationship during 1950s. Both countries attained the recognition of international community for their role in international financial affairs. The People's Republic of China (PRC) was officially came in to existence on October 1, 1949, and India was the first non-communist nation who established an Embassy in China. "Being neighbors India and China had established trade and cultural relations since time immemorial" (Arif, S.M-2013). Even though India and China started their strategic relations in April 1950, the conflict between two countries in many of times created serious problems in their bilateral relationship and it was restored in 1980s. In 1984 both countries signed the Most Favoured Nation (MFN) Agreement. It is a type of status or special level of treatment given by one nation to another with respect to international trade, which will help to improve the trade between such nations. Along with this, India-China Joint Economic Group on Economic relations and trade, science and technology (JEG), India- China Strategic and Economic Dialogue (SED), and a Financial Dialogue has also been constituted between the two nations. Then in order to strengthen the India-China relation, they opened the Strategic and Cooperative Partnership for Peace and Prosperity in 2005 and also signed A Shared Vision for 21st Century in 2008. The JEG is a ministerial level forum of commerce and industry of China and India formed in 1988 to discuss the matters of trade between them. The SED is a mechanism initiated in 2010 for the immediate discussion of any strategic or macroeconomic issues related to bilateral trade and the Financial Dialogue is formed in 2005 to strengthen the economic and trade cooperation. In the beginning of 2000, the bilateral trade between India and China was recorded at a low level of \$ 2.92 billion. Thereafter, it showed a rapid enhancement in the volume of trade and in 2008 it was \$ 41.85 billion. It was the remarkable milestone for the country that replaces the position of dominant trade partner as China by pulling down USA in second raw. And in 2014, India – China bilateral trade was \$ 70.65 billion and in 2017-18 it reached \$ 89.6 billion (Data of the Chinese General Administration of Customs). It reveals that China emanated as one of the most important trade partner of India. But when we look in to the balance of trade between these two countries, we can understand that it is still favorable to China due to the larger dissimilarities between the export and import. Even though we are trying to enter in to the Chinese market with variety of commodities, we are not able to compete with the Chinese products. Thus, "a cooperative and mutually beneficial relationship with China is inevitable for India to play a significant role in the Asian balance of power in the globalized era" (Aiyengar-2010)

India has great potential in areas like biotechnology, IT, health, education, tourism, and financial sector. So now we are trying to open up Chinese market for these services through technical innovations and by understanding the sector specific information from China. The friendly interactions between the politicians and high level officials among both countries are also intended for this purpose. However, India faces a challenging trade deficit with China and it is increasing year by year. In 2008-09 India's trade deficit with china was \$ 23.14 billion. In 2014-15 it worsened to a level of \$ 48.48 billion and again reached at \$ 62.94 billion in 2017-18.

India and China have three boarder points for trade, namely Lipulekh Pass (Uttarakhand), Shipki La Pass (Himachal Pradesh) and Nathu La Pass (Sikkim). The boarder trade in Lipulekh pass is governed by the treaty signed by both countries in July 1, 1992 at New Delhi. Here the period of trade is 1<sup>st</sup> June to 30<sup>th</sup> September and the allotted markets are Gunji (Uttarakhand) and Pulan (Tibet Autonomous Region- TAR), where 39 items are permitted to export from India and 18 items to import from China. The protocol for boarder trade in Shipki La pass are signed on 7<sup>th</sup> September 1993 and the allotted markets are Namgya (Himachal Pradesh) and Jiuba (TAR). The treaty signed in 23<sup>rd</sup> June 2003 is the basis of boarder trade in Nathu La Pass and the allotted markets are Changgu (Sikkim) and Renqinggang (TAR). On the period between 1<sup>st</sup> May to 30<sup>th</sup> November, 29 items are permitted to export and 15 are allowed to import.

"China's economic and commercial expansion is making it a crucial country in global trade and financial flows. The opportunities provided by the huge and growing Chinese market cannot be ignored by governments and corporations" (Sibal, A.K-2012). The strengthened trade relationship between India and China had promoted several Indian companies to start their business operations in China. Such Indian enterprises are mainly engaged in banking and allied activities, IT and IT enabled services, trading, manufacturing etc in major cities like Guangzhou, Shenzhen, Zhejiang, Shanghai and Beijing. The major Indian enterprises operating in China are Dr. Reddy's Laboratories, Matrix Pharma, Aurobindo Pharma, NIIT, Infosys, Bharat Forge, APTECH, TCS, Wipro, Essel Packaging, Mahindra Satyam, Suzlon Energy, Sundaram Fasteners, Reliance Industries, TATA Sons, Mahindra & Mahindra, Binani Cements, etc.

Likewise several Chinese companies are also operating in India in the area of infrastructure and machinery constructions, IT and Hardware manufacturing, EPC projects in power sector etc. The major enterprises

working in these fields are Shougang International, Sinosteel, Baoshan Iron & Steel Ltd, Chongqing Lifan Industry Ltd, Sany Heavy Industry Ltd, Sino Hydro Corporation, China Dongfang International, Huawei Technologies, TCL, ZTE, Haier, Shenyang Electric, Shanghai Electric, Dongfang Electric, Harbin Electric etc. Besides this many Indian banks like State Bank of India, Canara Bank, Axis Bank, Bank of Baroda, ICICI, Bank of India, Union Bank etc had started their banking operations in China. In 2011, Industrial and Commercial Bank of China have secured license for starting their banking business in India. They started their first branch at Mumbai on September 15, 2011 and again applied for the opening of second branch in New Delhi. Thus the economic and trade relation between India and China are drastically changed for the last two decades and it is clearly visible from the following tables.

**Table 1: Proportion<sup>1</sup> of volume of Export and Import of India with China**

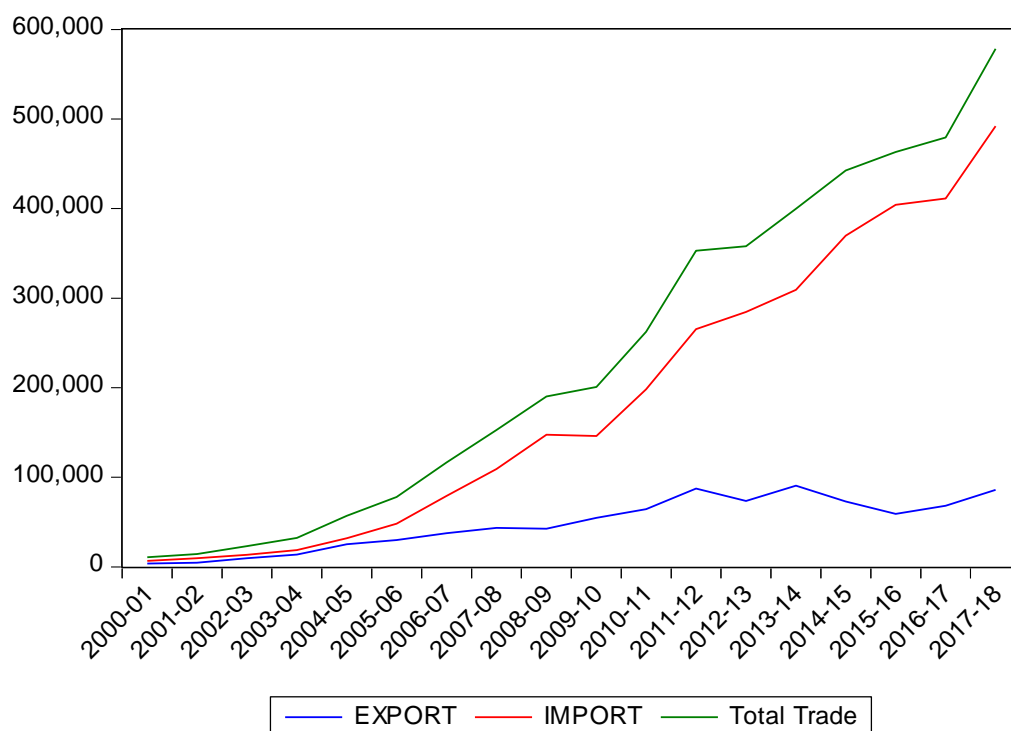
Year	Export (%)	Import (%)	Total trade (%)
1998 – 99	2	2.68	2.40
1999 – 00	1.28	3	2.42
2000 – 01	1.46	2.57	1.81
2001 - 02	2.38	3.18	2.84
2002 – 03	2.17	3.96	3.14
2003 – 04	3.74	4.54	4.18
2004 – 05	4.62	5.18	4.93
2005 – 06	6.72	6.62	6.67
2006 – 07	6.5	8.38	7.57
2007 – 08	6.56	9.4	8.25
2008 – 09	6.65	10.77	9.15
2009 – 10	5.07	10.74	8.58
2010 – 11	6.47	10.7	9
2011 – 12	5.65	11.77	9.3
2012 – 13	5.97	11.3	9.26
2013 – 14	4.49	10.65	8.32
2014 – 15	4.75	11.39	8.65
2015 – 16	3.85	13.5	9.55
2016 – 17	3.43	16.22	11
2017 – 18	3.69	15.94	10.85

**Source:** Ministry of Commerce and Industry, Govt. of India

In the above table twenty years trade data of India and China are given<sup>2</sup>. It shows the percentage of export and import of India with China and the percentage of total volume of trade between them for the financial year 1998 – 99 to 2017 – 18. The data reveals the fact that, in 2000-01 the proportion of export and import of the country's total volume was 1.46 and 2.57 respectively, that signifies there is no substantial difference between the bilateral trade relation between the countries at the very beginning of the 21<sup>st</sup> century. Even though the import is greater than export, the difference between the two is negligent. Such a trend had continued until 2005-06. Thereafter, it experienced a tremendous expansion in the volume of import with China and the gap between the country's export and import started to increase and was mainly because of the export enhancing policy of China. In 2006 – 07 it was 6.5 and 8.38 respectively. This trend had continued every year and it created large disparity in export and import volume between both countries and finally it reached as 3.69 and 15.94 percentages in 2017 – 18. It showed an uneven pattern of growth for import and export of the country with china very recently. The following graph represents the trend of India-China export and import from 2000 to 2018.

<sup>1</sup> Proportion in the total volume of export, import and overall trade

<sup>2</sup> The bilateral trade data of India and China are available only from 1997 onwards



**Source:** Ministry of Commerce and Industry, Govt. of India.

In the above figure, the X axis represents the years of trade and the Y axis represents the volume of trade in crores of Rupees. In the following figure among the 3 trend lines, the blue line indicates India's export to china, the red represents the import from China and the green indicates the total volume of trade of both countries. From the figure it is clear that, the growth in the volume of export is greater than the growth in the volume of import in the whole trade period. In the initial period the difference in export and import was too little and these two trend lines are almost parallel to each other. But from 2004-05 onwards the gap began to widen and the import reached in to the upper hand level for the remaining years as compared to the export level. At the same time, India's exports to China moving in more or less same pattern but its growth was too little in comparison with the volume of import. As the volume of import is increasing year by year, the total trade line is also showing an upward trend in the figure. The following table shows the major trade partners of India in 2017 – 18.

**Table 2: Top ten trade partners of India (2017 – 18)**

Rank	Countries	Volume of total trade (%)
1	China	11.66
2	USA	9.67
3	UAE	6.49
4	Saudi Arabia	3.57
5	Hong Kong	3.29
6	Germany	2.86
7	South Korea	2.70
8	Indonesia	2.65
9	Switzerland	2.60
10	Iraq	2.48

**Source:** Ministry of Commerce and Industry, Govt. of India

According to the report of Ministry of Commerce and Industry, in the financial year 2017 – 18, China is the largest trading partner of India with respect to their total trade. In terms of export USA hold the first position and in terms of import it is again China. When we go through the trade data of India with respect to all its trading partners, we can see that more than one decade, USA had held the primary position with respect to the total trade. And from the financial year 2013 – 14 China procure this position with its largest share in import to India. The major items of export and import of India with China for the financial year 2017 - 18 is given in the below table.

**Table 3: Major items of Export and Import of India with China (2017 – 18)**

Sl. No	Commodities Imported	Commodities Exported
1	Electrical Machinery, Equipment and Parts.	Arms and Ammunition; parts and accessories.
2	Nuclear reactors, boilers, Machinery, mechanical appliances and parts.	Works of art collectors' pieces and antiques.
3	Iron and Steel, Articles of Iron and Steel and Project good for some special uses	Meat and Edible meat oil, Edible vegetables and certain roots and tubers.
4	Copper and Copper articles, Zinc and Zinc articles	Edible fruits and nuts; Peel or citrus fruit or melons.
5	Salt, sulphur, earths and stone, plastering materials, lime and cement.	Products of the milling industry, malt, starches, inulin, wheat gluten.
6	Plastic and Plastic articles, Rubber and Rubber articles, Wood and articles of wood.	Sugar and Sugar confectionary, Cocoa and Cocoa Preparations.
7	Pharmaceutical Product, Fertilizers	Beverages, Spirit and Vinegar.
8	Organic chemicals, Inorganic chemicals and organic or inorganic compounds of precious metals.	Mineral fuels, Mineral oils and product of their distillations, Ores, Slag and Ash.
9	Mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral waxes.	Organic chemicals, Pharmaceutical Products, Fertilizers, Perfumery cosmetic preparations.
10	Aircraft, Spacecraft and Parts thereof, Ships, Boats and Floating structures	Railway locomotives, Rolling-Stock and parts, Track Fixtures, Fittings and parts.
11	Cereals, Coffee, Tea, Mate and Spices, Oil seeds. Grains, Seeds and Fruits	Aircraft, Spacecraft and parts, Arms and Ammunition; Parts and accessories.
12	Natural honey, Dairy produce, Bird's egg, Edible product of animal origin.	Furniture, Bedding, Mattress supports, Cushions and similar stuffed furnishing, Lamps and Lighting fittings.
13	Sugar and Sugar confectionary, Cocoa and cocoa preparations.	Photographic or Cinematographic goods.
14	Tobacco and Manufactured tobacco substitutes	Printed books, newspapers, pictures, other products of the printing industry, Manuscripts, Typescripts and Plans.
15	Silk, Carpets and other textile floor covering.	Carpets and other textile floor covering.

**Sources:** Directorate General of Commercial Intelligence & Statistics (DGCI&S), Ministry of Commerce and Industry, Government of India.

The above table shows only few major items of export and import of India and China. Both countries trade many items together. It includes agricultural product, electronic goods, chemical and fertilizers etc. In some cases both countries export and import the same category of commodities including daily consumption product to heavy industrial products. The main advantages of Chinese products are it is less expensive as they use advanced technologies in production. That is why they can sell their product in international market at low price.

## CONCLUSION:

The India – China trade relationship started around six decades ago and now it became apex trade partner of India in terms of their total volume of trade. The data reveals that China is the largest importer of our country. Our export to china is quite scanty as we compare this share with China's import. It is not a good sign to our economic development as the trade deficit is widening year by year. Constant attention is needed to reduce this deficit by expanding our export to China for the coming years. The institutions like India - China Business Council, India – China Trade Centers, India China Economic and Cultural Council, India – China Chamber of Commerce and Industry etc. are the mutual institutions of both countries which enhancing the trade between them. When strategic summits held on this background, our representatives are always trying to boost up India's condition to reduce our trade deficit. The mutual opening of banking and other business enterprises in both countries are appreciable as it can enhance our economic relationship.

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## ACKNOWLEDGEMENT:

I would like to express my deep sense of gratitude and heartfelt thanks to all those who supported me to complete this work successfully. Without their inspiration and immense support I am not able to complete this work.

Ranjusha.N

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